



Doing Business In Ukraine: A Country Commercial Guide for U.S. Companies

INTERNATIONAL COPYRIGHT, U.S. & FOREIGN COMMERCIAL SERVICE AND U.S. DEPARTMENT OF STATE, 2004. ALL RIGHTS RESERVED OUTSIDE OF THE UNITED STATES.

- [Chapter 1: Doing Business In Ukraine](#)
- [Chapter 2: Political and Economic Environment](#)
- [Chapter 3: Selling U.S. Products and Services](#)
- [Chapter 4: Leading Sectors for U.S. Export and Investment](#)
- [Chapter 5: Trade Regulations and Standards](#)
- [Chapter 6: Investment Climate](#)
- [Chapter 7: Trade and Project Financing](#)
- [Chapter 8: Business Travel](#)
- [Chapter 9: Contacts, Market Research and Trade Events](#)
- [Chapter 10: Guide to Our Services](#)

Chapter 1: Doing Business In Ukraine

- [Market Overview](#)
- [Market Challenges](#)
- [Market Opportunities](#)
- [Market Entry Strategy](#)

Market Overview

[Return to top](#)

Ukraine is an emerging market economy at the crossroads of Eastern Europe, Russia, and the Middle East. It holds great potential as a new market for U.S. trade and investment. Ukraine's resources and economic strengths include rich agricultural land, a strong scientific establishment, an educated and skilled workforce, and significant mineral reserves. Ukraine has achieved significant progress in opening its market to exports and investment, particularly in the last few years.

Ukraine is officially a \$ 60 billion economy, comprising heavy and light industry, oil and gas transit, coal and mineral extraction, oil refining, chemicals, agriculture, food processing and nearly 48 million consumers. Its official GDP (gross domestic product) is under-recorded because the local currency hryvnya (UAH) is artificially pegged to the U.S. dollar and much activity takes place "in the shade." GDP per capita estimates based on purchasing power parity are more than 300 percent higher than the official numbers. Ukraine's economy, perhaps the most dynamic in Europe, expanded by over 9 percent in 2003. In 2004 the GOU (Government of Ukraine) aimed at 12.4 percent growth and a GDP reaching UAH 332.7 billion (\$62-63 billion). However, the final results of 2004 will reflect a severe impact from three rounds of presidential elections held in October-December 2004, and exaggerated social commitments made during the election campaign. In 2003 –2004 the economic growth was driven by exports of manufactured goods, construction and other capital investment, oil and gas transport services, private consumption and government spending. In January – November 2004 the highest growth rate was recorded in machine building (30.7%), construction (23.8%), wood processing, paper and printing (26%), agriculture (19.1%), wholesale (18.7%) and retail trade (19.5%), processing industry (15.5%), and light industry (14%).

In 2004, Ukraine received almost \$ 1.4 billion of direct foreign investment. Annual capital investments for the same year totaled UAH 62.5 billion (\$ 11.8 million). Production machinery and equipment account for more than 50 percent of capital investment. Food processing, agricultural processing, machine building, coal, oil and gas, and light industry are among the main recipients of investment.

Ukraine is an export-driven economy. In January-October 2004, its exports grew 43.3 percent, totaling \$26.5 billion while imports grew 28 percent, totaling \$23.3 billion. Russia is Ukraine's main foreign trade partner. It accounts for 18 percent of Ukrainian exports and 41.2 percent of Ukrainian imports. The other major export destinations for Ukraine-made goods are Germany, Turkey, USA, Italy, Poland, China and Hungary. Most of Ukraine's imports come from Germany, Turkmenistan, Poland, Italy, USA, UK

and China. The export of non-precious metals and related products accounts for 39 percent of exports. The other 49 percent of exported goods includes minerals, machinery, chemicals, transport equipment and vehicles, food, crops, textiles. Oil and gas account for 36.1 percent of imports.

Market Challenges

[Return to top](#)

Because Ukraine's economy depends heavily on exports, its regulatory system is built to promote exporting and to protect the local market from competing imports. This is why importers have to face troublesome customs, licensing and certification procedures. On the other hand, local companies are subject to oppressive taxation and unfair tax collection practices. Although Ukraine is improving its regulatory environment on its way to joining the World Trade Organization (WTO), prerequisites for sustained economic growth, such as improvements in rule of law and corporate governance, remain incomplete. Until these basic weaknesses are corrected, and an independent judiciary is established to support and protect them, Ukraine's economic development is likely to lag behind its Eastern European neighbors and will be unable to attract the volume of foreign or domestic investment the country needs to raise living standards.

Market Opportunities

[Return to top](#)

Highly qualified and relatively cheap labor, developed transportation and communications infrastructure, and favorable location determine Ukraine's attractiveness for companies interested in this part of the globe. The list of best prospects sectors includes telecommunications, energy efficiency, oil & gas field machinery, agricultural machinery, airport/ground support equipment, drugs & pharmaceuticals, electrical power systems, food processing & packaging equipment, medical equipment, computers & peripherals, agricultural chemicals, automotive parts/services equipment, building materials, pollution control equipment, travel & tourism, security & safety equipment, computer software & services, and retail. In the near future there may be significant investment opportunities for US investors in electrical power systems, energy efficiency, oil & gas equipment, commercial real estate, transportation infrastructure development, and banking. Ukraine also looks like an attractive place to deploy manufacturing sites and service centers for customers located in the European Union (EU) and Russia. In addition, Ukraine's geographic location and infrastructure layout in conjunction with improving political and economic situation create favorable conditions to position the country as a transport corridor between the EU, Russia and the rest of the Commonwealth of Independent States (CIS).

Market Entry Strategy

[Return to top](#)

The sheer geographic size of Ukraine and its relatively high level of population dispersion make establishing a viable, reliable distribution network of great importance. Having a local representative and competent distributor would be especially helpful, since a strong business information network and transparent market rules have yet to develop. U.S. companies considering entering this market should seek legal counsel before and while doing business in Ukraine. Given the tenuous commercial environment and weak legal infrastructure, it is essential to obtain solid legal advice in structuring your company's investment and/or commercial plans.

[Return to table of contents](#)

Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/3211.htm>

UKRAINE-U.S. TRADE GROWS IN AN OVERALL BOOM

Summary. Steel exports have made this year a banner year for Ukrainian exports, which reached an all time high of \$29.5 billion for January-November 2004. This contributed greatly to Ukraine's strong economic growth. Ukraine's exports bound for the U.S. have been increasing, driven by strong growth in steel and fertilizer, as well as the lifting of some U.S. trade restrictions. U.S. imports from Ukraine from January-October 2004 were \$737 million, matching the 10-month figure of the yearly all-time high in 2000. For the U.S, Ukraine is a tiny market representing less than one-tenth of one percent of U.S. exports. Ukraine maintains a trade surplus with the U.S. The value of U.S. exports to Ukraine was also up strongly in 2004. Top Ukrainian imports from the U.S. are cars, poultry products, tobacco, and medical instruments and equipment. End Summary.

Steel Drives Ukraine's Exports

Metals, particularly steel, make up more than half of Ukraine's exports. High global steel prices, thanks largely to demand from China and Asian markets, contributed to Ukraine's export boom. Ukrainian exports were an all time high of \$29.5 billion for January-November 2004, 28 percent more than the second highest year 2003, even minus December data. A third of the total value was steel and steel products, where higher prices contributed significantly to the growth.

Increasing Share of Ukraine's Exports go to U.S.

Though exports to the U.S. represented just 2.7 percent of Ukraine's exports from January-October, according to Ukrainian data, they are growing (see Table 1). After dipping in 2003, according to U.S. data, U.S. imports from Ukraine are soaring this year and totaled US\$737 million from January through October 2004, nearly triple last year's total and near the all time high of \$872 million in 2000 (see Table 2). Imports have been higher in the second half of the year. (Note: see paragraph 11 for why export and import data do not match.)

Table 1:

U.S. Imports from Ukraine (U.S. Data)		Ukraine's Exports to U.S. (Ukrainian Data, State Customs)	
2002	\$405 million	\$519 million	2.9% of total
2003	\$282 million	\$718 million	3.1% of total
2004 (Jan-Oct)	\$737 million	\$808 million	2.7% of total

Table 2: U.S. Total Imports from Ukraine (U.S. Data, thousands of USD):

1992	88,654
1993	171,776
1994	326,927
1995	408,580
1996	506,867
1997	414,030
1998	530,691
1999	517,790
2000	872,986
2001	670,053
2002	405,862
2003	282,010
2003 (Jan-Oct)	256,631
2004 (Jan-Oct)	737,425

Ukraine's trade is divided roughly one third to Europe, one-third to the CIS, and one third to elsewhere. Russia is Ukraine's single largest export destination taking over \$5 billion in exports, about 18 percent of the total. Within Europe, Germany is Ukraine's largest trading partner. Turkey, at \$1.665 billion, is also the country with which Ukraine has the largest trade surplus, followed by Italy and Romania.

Ukraine is a tiny trade partner for the U.S, supplying just .06 percent of U.S. imports and receiving just .05 percent of U.S. exports. The share, however, has increased from just .02 percent in 2003. Ukraine is the 71st largest supplier of imports to the U.S. and the 79th largest export market for U.S. goods, based on U.S. data from Jan-Oct 2004.

U.S. Buys Metals, Coke, and Fertilizer

Due to the worldwide steel boom and the end of the U.S. steel safeguards regime in December 2003, U.S. imports of iron and steel products, as well as fuels used in steel production, from Ukraine were up more than five-fold from 2003. Iron and Steel (HTS 72), Mineral Fuels and Mineral Oils (HTS 27), and Inorganic Chemicals (HTS 28) make up 68 percent of U.S. imports from Ukraine.

Iron and Steel is the strongest HTS 2-digit category with US\$208 million (January-October 2004) or 28 percent of total U.S. imports from Ukraine. The second largest HTS 2-digit category, HTS 27, was also related to the steel boom, \$173 million of U.S. imports of Mineral Fuels from Ukraine, mainly coke. Coke imports were zero in the past but totaled US\$142 million January-October. Coke is used in the production of steel. The fertilizer "Anhydrous Ammonia" (HTS 28141000) totaling US\$114 million January-October, 2004, was the third large growth item for Ukraine's exports to the U.S. The figure is seven-fold higher than last year's total and made up 15 percent of all U.S. imports from Ukraine in the first ten months of 2004.

Policy Change Affecting 2004 Trade

U.S. steel safeguards were in place from March 2002 to December 3, 2003 on 10 steel industry products, principally consisting of tariffs of 8 percent to 30 percent. The lifting of these safeguards meant more U.S. steel imports from Ukraine. Steel trade remains

subject to a suspension agreement on certain carbon steel plate, which was extended for an additional three years on November 27, 2004.

Ukraine Imports Cars and Chicken from the U.S.

U.S. exports to Ukraine were up strongly in 2004, growing by more than 38 percent by U.S. data. The U.S. is the fourth largest supplier of Ukrainian imports. The top Ukrainian imports from the U.S. is motor vehicles, poultry products, tobacco, and medical instruments and equipment. According to the State Customs Service, January-November 2004, Ukraine imported from the U.S. \$108 million worth of motor vehicles, \$52 million of medical equipment and \$48 million worth of poultry products.

Table 3:

U.S. Exports to Ukraine Ukraine's Imports from U.S.
(U.S. Data) Ukraine State Statistical Committee)

2002	\$255 million	\$473 million
2003	\$231 million	\$499 million
2004 (Jan-Oct)	\$320 million	\$576 million

Ukraine's Restrictions on U.S. Imports

A number of policies affect U.S. exports to Ukraine. A two-year ban on U.S. poultry products was lifted in 2003 following the negotiation of a new veterinary certificate. Poultry trade recovered quickly to become the fourth largest import from the U.S. The GOU continues to limit red meat and pork imports from the United States.

Data Notes

Ukraine currently classifies its trade data using the 1996 version of the Harmonized Tariff System (HTS) nomenclature and plans to switch to the 2002 version upon accession to the WTO. The Ukrainian State Customs Service (www.customs.gov.ua) has detailed 4-digit HTS commodity level data available. However, the agency appears to have a number of erroneous entries in both export and import data. For example, petroleum oil (HTS 2709) is listed as the top 4-digit HTS import from the U.S., valued at \$618 million through November of 2004. That oil most likely came from a Russian company registered in the U.S. Also, Ukrainian data shows "Parts of Railway or Tramway Locomotives or Rolling Stock" (HTS 8607) as the as the top 4-digit HTS export to the U.S., valued at \$541 million (Jan-Oct 2004). U.S. data, however, show imports of just \$3.4 million of HTS 8607. These errors seriously skew the customs data, though many sources quote these figures. Additional factors that contribute to data discrepancies are differences in classification concepts and detail, time of recurring, valuation, and coverage, as well as processing errors, which account for inconsistencies in trade statistics. Transshipment through Europe, as well as Ukraine's leaky and corrupt free trade zones further distorts statistics on U.S.-Ukraine trade. Tax fraud is another factor, as Ukrainian companies may claim they exported more than they actually did in order to receive higher value-added-tax (VAT) refunds. Ukraine's State Statistics Committee has adjusted trade data available in English at www.ukrstat.gov.ua. This data corrects many of the customs service errors. U.S. Embassy Kiev uses it since it is considered more accurate, although it does not provide product level data.

[Return to table of contents](#)

Chapter 3: Selling U.S. Products and Services

- [Using an Agent or Distributor](#)
- [Establishing an Office](#)
- [Franchising](#)
- [Direct Marketing](#)
- [Joint Ventures/Licensing](#)
- [Selling to the Government](#)
- [Distribution and Sales Channels](#)
- [Selling Factors/Techniques](#)
- [Electronic Commerce](#)
- [Trade Promotion and Advertising](#)
- [Pricing](#)
- [Sales Service/Customer Support](#)
- [Protecting Your Intellectual Property](#)
- [Due Diligence](#)
- [Local Professional Services](#)
- [Web Resources](#)

Using an Agent or Distributor

[Return to top](#)

One advantage of dealing with agents and distributors is that they can handle the certification and license procedures for imported products.

As in any foreign country, a local partner or representative can provide valuable insight and commercial intelligence that might otherwise be missed by the U.S. businessperson. A local representative can be especially helpful in newly emerging markets, where a strong business information network has yet to develop. However, before entering into a distributorship or agent agreement, U.S. companies are advised to keep the following points in mind:

1) While the extent of information on Ukrainian companies has improved slightly, there is still a significant dearth of background data and credit history on potential Ukrainian distributors. This presents the greatest obstacle to finding reliable, competent distributors. In order to obtain a due diligence report on a potential Ukrainian partner, a U.S. company is advised to contact either a law firm or market entry facilitator (please refer to <http://www.buyusa.gov/ukraine/en/page30.html>)

2) To find a potential partner, U.S. companies may also wish to use the U.S. Embassy's Commercial Service programs: the International Partner Search (IPS) and Gold Key Service (GKS).

3) The Embassy strongly advises that all U.S. companies consider legal counsel before and while doing business in Ukraine. Given the tenuous commercial environment and weak legal infrastructure, it is essential to obtain solid legal advice in structuring your company's investment. Furthermore, it is important to keep-up with the changing laws

and regulations. Legal counsel may provide general advice on fluctuations in the commercial environment in Ukraine and prevent disputes from emerging between partners in the future.

4) When drafting a contract with a Ukrainian company, a U.S. business must consider including an anti-bribery provision. According to the OECD Convention, which came into force in February 1999, "foreign public officials," including all branches of government, international organizations, state enterprises, political parties and candidates, are subject to anti-bribery prohibitions. In addition, paying unusually high commissions to a distributor, hiring a representative who is a relative of a local government official, other improper advantages and improper accounting practices are subject to criminal and civil liability under anti-bribery legislation of the United States.

5) It is typical for Ukrainian companies to seek to establish long-term business relations on consignment or on an equal investment-sharing basis. U.S. exporters are advised to start with small sales and full pre-payment or letter of credit terms. U.S. exporters should be cautious about any balance payments, due to constantly changing rules on local banking procedures.

6) Kyiv is not the only hub of trade in Ukraine. Look for distributors that have nationwide capabilities, including the cities of Lviv, Odessa, Zaporizhzhya, Dnipropetrovsk, Donetsk, and Kharkiv. These regions are considered important industrial centers of Ukraine and are densely populated.

Establishing an Office

[Return to top](#)

When a foreign company plans to start a business in Ukraine, the following legal entities are possible: a joint stock company, limited liability company, wholly-owned subsidiary, or a representative office. For regulatory and taxation purposes, with some exceptions, representative offices are treated similarly to independent legal entities. Some industries, including banks and insurance companies, are more heavily regulated, and must be established in compliance with specific requirements. A representative office can carry out marketing, promotional, and other auxiliary and preparatory functions on behalf of the company. The establishment of a wholly owned company in Ukraine would be recommended if the company intends to carry out manufacturing or other significant local commercial activities. There is no prohibition for a foreign legal entity to have both a representative office and to establish a wholly owned subsidiary at the same time.

Registration of local offices of foreign companies is handled by the Ministry of Economy and European Integration of Ukraine, and is done within 60 days of submission of all required documents and upon payment of a US\$2,500 fee.

For registration of a representative office, the Ukrainian Ministry of Economy and European Integration requests the following documents:

1. Application for registration on the company letterhead signed by the chief officer of the company and with its seal affixed. The form is free.
2. Extract from the Trade Register of the country of location of an officially registered central management body (office) of a foreign business entity.

3. Certificate of a bank that services the company, containing the account number.
4. Warrant in the name of a specific individual for execution of representative functions in the territory of Ukraine, listing the authority of a representative.

Originals of documents listed in Paragraphs 1,2,3,4 must be duly legalized in consular offices, representing the interests of Ukraine. The documents must be in the Ukrainian language. A seal of an official translator must attest the translation. The documents must be submitted to the Ministry of Economy and European Integration of Ukraine no later than 6 months after issued in the country of origin. Upon acceptance of registration documents, an applicant will pay a registration fee, amounting to US\$2.500. Within a month of obtaining a registration certificate, a representative office must register with the local tax inspectors.

To obtain detailed information on how to register a local office of a foreign company, please contact Mr. Alexey Maximenko, Ministry of Economy and European Integration of Ukraine at phone: 38044-272-5579 or by e-mail: ustanov@msert.com.ua

For relevant GOU regulations (Order by the Ministry of Foreign Economic Relations No. 30 dated 18.01.1996) containing detailed information and a list of required documents (in Ukrainian only) please refer to:

<http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi>

<http://zakon.rada.gov.ua/>

Please note that in addition to registering all business entities with legal entity status (resident or foreign) with the GOU, they should be officially registered with a relevant administrative body at the place of residence of the given business entity, unless otherwise provided by law.

Franchising

[Return to top](#)

Franchising is still nascent in Ukraine. McDonald's has dominated the fast-food sector in the country, but there are also other successful examples of franchising projects to be found, such as Express Personnel Services, Xerox copy centers, Kodak photo developing centers in Kyiv, Baskin Robbins, T.G.I. Friday's and others. The lack of legitimate franchising instruments is considered to be the key factor dissuading other U.S. fast food chains from doing business in Ukraine.

There are several other successful foreign and domestic franchisers:

Spar, a Netherlands-based company, is one of the world's largest retail food chains. Spar Ukraine was launched by a group of local investors who bought the exclusive license for the Spar brand. Spar Ukraine opened a distribution center in Kyiv early in 2001. That center supplies more than 1,000 retail food stores and restaurants in the Kyiv region and serves as Spar's warehouse for its stores.

Car Rent Ukraine, the Hertz Franchise in Ukraine, and First Lease Ltd. merged their operations. First Lease bought the franchising license for Hertz. Car Rent Ukraine is now responsible for car rental and First Lease for leasing.

A Lviv-based company that owns the trademarks for Pizza Celentano and The Potato House is an example of a successful local franchiser. The company has created a nation-wide chain of "make-your-own-pizza" and potato restaurants, having penetrated

even small Ukrainian towns. The number of the company's franchisees in Ukraine, Russia and Poland has grown to 42.

The Ukrainian market offers many opportunities for international franchising. However, as an entrepreneurial activity, franchising encounters the same general barriers that impede the establishment of small and medium sized businesses: expensive banking loans, an undeveloped leasing system, and obscure IPR legislation.

Direct Marketing

[Return to top](#)

Marketing of consumer goods is usually done through large department stores, specialty or chain stores, and direct retailing. Promotional materials for direct mailing through mail order houses should be detailed and in the Ukrainian language. The marketing of industrial goods and commodities is done largely by distributor warehouses, exhibitions, trade shows, and mailing catalogs sent (with price lists) to the end-user. Leasing and/or the contribution of equipment to statutory funds of a joint venture can also be effective marketing techniques.

Joint Ventures/Licensing

[Return to top](#)

Joint ventures, including those between Ukrainian and Western partners, became popular in Ukraine immediately after the start of the transformation to a market economy. They were viewed as a compromise between the customary form of business, which was oriented towards national ownership, and the necessity to attract foreign investors and learn foreign business practices.

In Ukraine's legislation the term "joint venture" has two meanings:

- 1) Joint ventures are enterprises established primarily to pool assets of different owners and are of mixed-type ownership;
- 2) Joint ventures are based on the common capital of Ukrainian and foreign business entities, as well as on joint management and common distribution of results and risks.

In practice, however, the term is used for new business entities set up by Ukrainian and foreign founders. This may come about as a result of a foreign investor's interest in a Ukrainian enterprise (taking possession of stocks and part of its authorized capital).

The availability of a foreign investor is a prerequisite for the founding and functioning of a joint venture. Definite peculiarities exist with the possible participation of state-owned enterprises in creating joint ventures. According to existing laws in Ukraine, the State Property Fund of Ukraine and agencies to which this fund delegates its authority are entitled to establish joint ventures on behalf of state-owned enterprises.

In terms of formation of joint ventures, Ukrainian law sets no limitations. They are free to be established as limited corporations, stock companies, or other associations. State registration is mandatory when establishing a joint venture.

A joint venture has all the rights of a legal entity as soon as it has its state registration. Joint ventures may perform business activities of any kind, except for those prohibited by law or requiring licensing.

The many government agencies involved in the licensing process sometimes can be a barrier to foreign investment. The typical business has to secure roughly a dozen licenses. According to the law "On Licensing of Certain Kinds of Business Activity," the following Ukrainian agencies are responsible for granting licenses:

Ministry of Agricultural Policy (http://www.minagro.kiev.ua)	- Cultivation and processing of narcotic plants for industrial purposes;
Ministry of Internal Affairs (http://www.centrmia.gov.ua)	- Manufacture of and trade in firearms and tear-gas guns, munitions, knives, BB air guns with caliber of more than 4.5 millimeter and bullet speed of more than 100 meters per second; - Manufacturing of and trade in self-protection means with tear-gas or spray base; - Security and guard services;
Ministry of Ecology and Natural Resources Http://www.menr.gov.ua	- Exploration and development of natural resources; - Exploration of uranium ores and deposits - Certain kinds of waste collection and processing (listing is determined by the Cabinet of Ministers of Ukraine); - Hazardous waste handling and utilization; - Aeronautic-spray services; - Topographic, geodesic and land-survey services;
Ministry of Economy and European Integration Http://www.me.gov.ua	- Arbitration services (property tort, readjustment, liquidation, settlement); - Export and import of compact laser disks, CD-ROMs and equipment for their production;
State Department of Intellectual Property (Ministry of Education and Science) http://www.spou.kiev.ua/ http://www.spou.gov.ua http://www.education.gov.ua	- Manufacture of compact laser disks, CD-ROMs;
Ministry of Health of Ukraine http://www.moz.gov.ua	- Disinfecting, dissection and deracination services in human facilities; - Medical practice; - Human blood processing for drugs;
Ministry of Labor and Social Policy http://www.mlsp.kiev.ua	- Intermediary services for employment abroad;
Ministry of Finance http://www.minfin.gov.ua	- Production of precious metals, precious and semi-precious stone deposits;

	<ul style="list-style-type: none"> - Processing of precious metals, precious and semi-precious stones; - Manufacturing of and trade in articles from precious metals, precious and semi-precious stones; - Publishing of securities or other official stationery; - Precious metal scrap and stones collection and processing; - Insurance services; - Lottery issue;
State Committee on Building, Architecture and Housing Policy http://www.build.gov.ua	<ul style="list-style-type: none"> - Commercial and residential water supply; - Construction and architectural design
State Committee for Water Resources http://www.kmu.gov.ua	<ul style="list-style-type: none"> - Design, engineering, maintenance and construction of melioration systems;
State Committee for Land Resources http://www.kmu.gov.ua	<ul style="list-style-type: none"> - Land survey and appraisal services;
State Committee for Communication and Normalization http://www.stc.gov.ua	<ul style="list-style-type: none"> - Postal money transfers, shipment of parcels under 30 kg weight, simple and registered letters, postcards - Radio-frequency telecommunication services; - Telecommunication services (except internal corporate telecommunication services); - Maintenance of video-, TV-, radio-broadcast, and wire communication systems within single company territory;
Department for Tourism http://www.tourism.gov.ua	<ul style="list-style-type: none"> - Domestic or tourist or excursion trips;
Ministry of Industrial Policy of Ukraine http://www.industry.gov.ua	<ul style="list-style-type: none"> - Manufacture of hazardous chemicals (Listing is determined by the Cabinet of Ministers of Ukraine); - Exploration and development of precious metals, precious and semi-precious stone deposits; - Manufacturing of and retail trade in agricultural chemicals; - Iron and color metal scrap collection and processing;
National Space Agency http://www.nkau.gov.ua	<ul style="list-style-type: none"> - Development, production, testing, commercial use of missiles and space infrastructure and space satellite equipment;
State Commission on Securities and Stocks http://www.ssmc.gov.ua	<ul style="list-style-type: none"> - Brokerage and trade in securities and stocks;
State Customs Service http://www.customs.gov.ua	<ul style="list-style-type: none"> - Customs broker services;

Large government procurements represent export opportunities for U.S. companies. However, the Ukrainian government lacks internal resources for many large purchases. Companies are advised to track the tender announcements of the World Bank and the European Bank for Reconstruction and Development (EBRD), which have initiated numerous programs to assist Ukraine in its transition to a market economy. The presence of a Western tender organizer often makes selling to the government a more transparent practice, providing for published deadlines, proposal criteria, and more importantly, Western oversight in making final procurement decisions. Ukraine is not a signatory of the WTO Agreement on Government Procurement.

Government procurement is conducted under Ukraine's "Law on Procurement of Goods, Works and Services Using State Funds" #1490-3 dated February 22, 2000. Under this law, all government procurement of goods and services valued above EUR 40,000 must be conducted via tenders (either open, or open with pre-qualification). Open international tenders must be conducted when procurement is financed by an entity not resident in Ukraine. Information on government procurement is published in the "Visnyk Derzhavnykh Zakupivel" (State Procurement Bulletin) of the Ministry of Economy & European Integration of Ukraine. American company representatives in Ukraine can arrange subscription for this magazine (in Ukrainian or in Russian) at the Ministry of Economy & EI at the following contacts:

Tel: (380-44) 293-9415/3296/1166

Fax: (380-44) 552-4365

E-mail: vdztender@me.gov.ua

Large procurements are also announced on the Internet web page of the Ministry of Economy & EI at www.me.gov.ua.

In exporting directly from the United States to Ukraine, the least expensive and most reliable means of transport is by sea, through 18 marine ports in Ukraine, including Odessa, Illichevsk, and Mariupol. Rail is another cheap, but less reliable, method of shipping products throughout the country. Rail traffic has fallen substantially since Ukrainian independence and minimal backups at crossing points make rail transport an interesting alternative to other forms of transport. Nearly 23,000 kilometers of railway connect Ukraine with Poland, Slovakia, and Hungary, as well as with eastern and northern points of the CIS.

The sheer geographic size of Ukraine and its relatively high level of population dispersion (only slightly over 10 percent of Ukraine's population lives in the three largest cities) make establishing a viable, reliable distribution network of great importance. While some of the larger firms use their own internal customs clearance and distribution networks, several smaller companies use freight forwarders for distributing products. Numerous domestic and international freight-forwarders and shipping companies provide service to a number of commercial and diplomatic entities in Ukraine, although price is a factor that U.S. companies should consider. The Ukrainian commercial infrastructure has matured rapidly in recent years. Western-style distribution networks

are developing in the country. During the last several years, a network of chain stores, brand name stores and supermarkets has emerged. They are usually located in the downtown areas of cities and are owned by Ukrainian or foreign private entrepreneurs. Although there is some competition among newly emerged distribution outlets and old-fashioned stores, each caters to the demands of a different group of consumers.

One of the key factors influencing the marketing of U.S. products in Ukraine is the right choice of an agent or distributor. If a U.S. company intends to have a long-term relationship with its Ukrainian partner, it is wise to get to know the business partner and their business as much as possible from the onset. Coordination and agreement regarding sales policies and pricing is absolutely necessary. Local businesses are oriented towards high profitability, which can seriously affect the marketability of U.S. products. U.S. exporters should be aware that their Ukrainian partners have to deal with a number of indirect duties and commercial risks that will influence their pricing policy. Generally speaking, the sales policies of U.S. companies interested in the Ukrainian market should take into account the unique features and challenges of this developing market. Rather than try and apply sales policies used in Western and Central Europe (or even Russia), a flexible and cooperative policy, oriented towards a long-term presence in the market, is much more likely to bring desired results.

Problems have arisen for U.S. companies that sell through their euro zone subsidiaries. Unfavorable currency exchange rates and higher European taxes and/or duties decrease the price competitiveness of U.S. products. Additionally, working through European subsidiaries is perceived by Ukrainian businesses as an additional layer of bureaucracy and overhead cost. Ideally, a U.S. company interested in conducting a successful business operation in Ukraine should have an in-country representative and an established network of distributors and sellers.

Offering a flexible credit policy is important not only for small-scale Ukrainian companies, but also for multimillion-dollar local firms. Local companies' access to loans and credits is limited by high interest rates and short repayment terms demanded by local banks. Moreover, the Ukrainian tax system has a very negative impact on the working capital of resident companies, reducing their credit resources.

Selling Factors/Techniques

[Return to top](#)

Prior to considering the Ukrainian market, any U.S. company should be aware of two contradictory attitudes deeply ingrained in the minds of Ukrainian customers. The first is an enthusiasm for Western manufactured products (especially consumer electronics, household appliances, cars, and cosmetics) and the second is the belief that some Ukrainian consumer products (especially food and liquor) are of better quality. This is in part due to the flood of imported goods of dubious origin and poor quality – many of which are falsely marketed under well-known brand names, and partially due to the excellent quality of locally produced food products and beverages. An inner conservatism of Ukrainians and a predilection for familiar goods play a decisive role in consumer behavior.

Locally produced promotional advertising that targets Ukrainians is required to expose the average Ukrainian to unfamiliar brand names. TV advertising proves to be the most efficient and cost effective way to win new customers. Consumer confidence in a particular product is improved by a description, list of ingredients, warranty or

maintenance guarantee. Ukrainian consumers are turned-off by products with Western brand names that are manufactured in Asia or other former socialist countries (other than Russia and Belarus), or distributed by companies located in these parts of the world. The name of a Ukrainian or Russian distributor and local address on original packaging can increase consumer confidence.

When planning their sales strategy for Ukraine US exporters should take into account a growing tendency for Ukrainians to buy quality, Western-made products. As the local economy offers very limited opportunities for long-term savings or investments, even middle class Ukrainians are ready to pay top dollar price for expensive brand name clothing, top quality household appliances, jewelry and furniture. Since US goods generally have a very good reputation but are rarely available on the local consumer market a tag "Made in USA" would definitely increase customers' enthusiasm.

Retail superstore chains just started developing in Ukraine and are available in major cities only. Thus far these chains specialize in food or consumer electronics. The other consumer goods are sold through specialized retail outlets or open markets. This creates a wide gap in the assortment of offered goods. Retailers target either rich or poor customers. The growing number of middle class customers has to choose between fashion boutiques and open markets. Discount superstores do not exist at all. Retail superstore chains (e.g. Wal-Mart, Kmart, etc.) could reshape the local market for consumer goods, increase its potential, and change selling techniques.

Selling goods on credit also will have a revolutionary impact on the market. This practice just began developing after years of inactivity. Increasing financial stability, improving transparency in personal incomes and growing purchasing capacity of the Ukrainian people enabled banks to start offering credit not only for major acquisitions (i.e. real estate or cars) but also for a wide variety of consumer goods.

Electronic Commerce

[Return to top](#)

E-commerce is hardly gaining in popularity in Ukraine. Its growth evidently lags behind the development of the banking card system. Some years ago the underdeveloped banking card system, limited number of internet users and lack of legal norms needed to regulate e-commerce (especially B2B) were viewed as the main obstacles for fast e-commerce development. There are almost 16 million MasterCard and Visa cards, and close to 6 million Internet users in Ukraine now. Basic regulations are in place. However both B2C and B2B segments of e-commerce are still in their initial development.

Most Ukrainian Internet shops are price lists or advertising sites with an option to place an order, that later could be delivered, after a cash payment, card payment or bank transfer is received. Many Internet shops accept on-line payments from clients of their partner banks only. Ukrainian Government officials, though, purporting to understand the benefits of e-commerce, are mostly indifferent to the problems of this sector. So its development, especially in its B2C segment, is motivated almost exclusively by enthusiasm of individual representatives of the IT community. B2B e-commerce has experienced a successful start, in such areas as, metals trading, IT, and transport services. However, B2B's further development fully depends on the corporate strategies of individual companies that may see a benefit in including e-commerce in their development plans. So far, both businesses and customers usually view e-commerce

more as an entertainment than a serious business opportunity. The attitude of controlling government bodies (e.g. tax inspector, customs) is more skeptical and negative. A psychological mistrust and conservatism seem to be the main obstacles for further development of e-commerce in this country. Please see the following e-commerce sites:

<http://furshet.ua/> <http://www.int-commerce.com/intc/index.html>
<http://www.bambuk.com.ua/> <http://www.ukraineinternational.com/eng>

Trade Promotion and Advertising

[Return to top](#)

Today, there are over 300 advertising agencies in Ukraine, many of which carry a wide range of services.

Most popular TV channels in terms of advertising are Inter, 1+1, ICTV, UT-1 (the central state channel), Channel 5, and STB. Popular commercial radio channels – Gala Radio, ERA, Music Radio, Prosto Radio, Russkoye Radio, Shanson, Renaissance. Together radio and TV make up about 64 percent of the national advertising market.

Newspaper advertising accounts for another 14 percent. The major Ukrainian newspapers/journals which may be used for advertising include: Den/Day (www.day.kiev.ua); Fakty/Facts (www.facts.kiev.ua); Segodnia (<http://today.viaduk.net>); Silski Visti/Countryside News (<http://silskivisti.kiev.ua>); Uryadovyy Kuryer/Government Courier (<http://uamedia.visti.net/uk/>); Delovaya Nedelia/Business Week (<http://dn.kiev.ua>); Biznes/Business (www.business.ua); Halytski Kontrakty/Halytski Contracts (www.gc.lviv.ua); Kompan&on (www.companion.ua); Zerkalo Nedeli/Mirror of the Week (www.mirror.kiev.ua); Telenedelia/TV Week (www.tvweek.com.ua); Express-Obyava/advertising and announcements (www.eo.kiev.ua); Aviso/advertising and announcements (www.aviso.kiev.ua). Many international male & female magazines are published in Ukraine and are good for advertising. The major English-language newspapers/journals are: Kyiv Post (www.kyivpost.com), KyivWeekly (www.kyivweekly.com), and What'sOn (www.whatson-kyiv.com).

Outdoor advertising accounts for 22 percent of advertising expenditure in Ukraine. Among the regions of Ukraine, the largest budgets for advertising are in the Kyiv, Dnipropetrovsk, Odessa, Kharkiv, Donetsk, and Lviv regions. One of the largest outdoor advertising companies in Ukraine, Bigboard (a Czech-Ukrainian joint venture formed early in 1993) was the first private company to sell outdoor space – mainly billboards - for advertising in Ukraine. Despite the entry of other competitors, Bigboard remains the largest, with a market share of about 30 percent. Outdoor advertising companies must obtain licenses from local authorities. These are issued for a period from six months to five years. There is an association of outdoor advertising companies in Ukraine that lobbies on behalf of the industry.

The demand for public relations services in Ukraine is growing. One of the most successful public relations (PR) companies is the U.S. company TWG/Burson-Marsteller (www.twgworld.com). PR agencies in Ukraine have their own industry-lobbying association.

The law that regulates advertising in Ukraine is the "Law on Advertising" #270/96 of 07.03.1996, with changes outlined in the law # 1121-IV of 07.11.2003.

Under most circumstances, advertising in Ukraine has to be in the Ukrainian language. However, advertisements in media primarily printed or broadcast in a different language are exempt from this rule. Trademarks registered in a foreign language or alphabet are also permitted.

The advertising regulatory authorities are: the State Antimonopoly Committee of Ukraine; the State Committee on Information Policy, TV and Radio Broadcasting; the National Council of Ukraine on Radio and TV Broadcasting; and the State Committee on Standardization, Metrology and Certification.

Major local trade show organizers and fair authorities include: Medvin (www.medvin.kiev.ua), PremierExpo (www.pe.com.ua), Euroindex (www.euroindex.com.ua), ACCO International (www.acco.com.ua), International Exhibition Center (www.iec-expo.com.ua), KievExpoPlaza (www.expoplaza.kiev.ua). CS Kiev actively promotes American exporters at the major local trade shows, arranging and staffing the U.S. Product Literature Centers at the shows (see <http://www.buyusa.gov/ukraine/en/28.html>).

On request, Commercial Service (CS) Kiev can provide an extensive list of advertising agencies, as well as print and television media operating in Ukraine (see Customized Contact List service at <http://www.buyusa.gov/ukraine/en/13.html>).

CS Kiev can offer your company flexible interactive promotion in Ukraine: under Business Service Providers or FUSE – BuyUSA featured U.S. exporters (see <http://www.buyusa.gov/ukraine/en/29.html>).

Pricing

[Return to top](#)

Prices in Ukraine typically include a 20% Value Added Tax. High import tariffs, high direct and even higher indirect taxes, combined with the small number of suppliers of Western-made products in the Ukrainian market, keep prices at a high level. Commercial risks associated with permanent fluctuations of USD/EURO exchange rate in 2003-2004 added a high overhead cost to goods imported from Europe making direct imports from U.S. more attractive. To date, the Ukrainian market has been flooded with cheap, low-quality goods from Asia and former Socialist-bloc countries, often sold under well known Western brand names and at prices comparable to a high fashion boutique in a Western European capital. However, despite the higher prices, there is a growing tendency for Ukrainians to buy quality, Western-made products. As the local economy offers very limited opportunities for long term savings or investments, Ukrainians that have lived through the crash of Soviet monetary system, tend to spend their savings (often meager by Western standards) on expensive clothing, top quality household appliances, jewelry and furniture.

Many Ukrainian customers not familiar with U.S. or Western European markets strongly believe that high prices guarantee high quality. Suppliers of products of dubious origin exploit such beliefs. U.S. exporters trying to develop a successful pricing policy should also be aware of the fact that some of their local competitors that claim to be selling exclusive Western products at “a European” price, are in fact money laundering operations.

The other factor worth been taking into consideration is the availability of after-sale

services and customer support. Prices in developed countries reflect the cost of after-sale services and customer support, while in Ukraine this key element is often missing.

When establishing prices, exporters should consider the purchasing power of the average Ukrainian consumer. According to the Ministry of Economics, the average Ukrainian per capita monthly wage is between \$100 and \$150. However, the Ukrainian shadow economy and in kind revenues received by families that own land or other agricultural resources, increase these numbers. There is a fast-growing segment of the population whose disposable income is rising due to the increase in entrepreneurial/commercial activities not accounted for in official reports.

When developing pricing policies, U.S. suppliers should also note the regional and age differences among end-users. The demand for Western-made products is far greater among the younger generation, with the sharpest contrasts seen between the under-50 and over-50 age groups. The widest differences are in the purchase of vehicles, personal care products, candy, jewelry, household goods, and electronics. The correlation between education level and product demand is not as evident as in Western economies, because many educated consumers are part of the low-income population.

It is important to note regional variations in demand and price of Western-made consumer goods, although these differences are becoming less pronounced. While the Kyiv area is typically well supplied with various products, remote areas are not. Major Ukrainian cities (e.g. Dnipropetrovsk, Donetsk, Kharkiv, Zaporizhzhya, Odessa, Lviv) offer good potential for foreign exporters interested in expanding their operations in Ukraine.

The Cabinet of Ministers of Ukraine has price-setting authority with products, goods, and services in certain sectors. These lists include basic tariffs (e.g. electricity, telecommunications, transportation, utilities), and some crucial products such as sugar, grain, gas, oil etc. Government regulated prices and tariffs may change as a result of changes in production and sale conditions.

To see prices for different goods please refer to the following web sites:

<http://price.com.ua/> <http://shop.bigmir.net/> <http://itc.ua/hl/>

Sales Service/Customer Support

[Return to top](#)

A key element to succeeding in the Ukrainian market is the establishment of a network of after-sale support centers for goods and equipment. Maintenance centers are especially important for a variety of industries, including household appliances, telecommunications equipment, consumer goods, and vehicles. In February 1999, the Cabinet of Ministers adopted a decree on after-sale service and maintenance of household appliances. According to this legislation, all products have to carry certification of origin, price, after-sale obligations of the manufacturer, rules of use, the manufacturer's address, and information on certification in Ukraine.

In 2001-2002 many local companies that were previously engaged in sales of imported goods, either opened after-sale support divisions, or moved to after-sale support and maintenance business altogether. Major importers started outsourcing after-sale services to other companies on a competitive basis. This service industry is quickly taking shape.

Ukraine still has a long way to go to approach western standards for after-sale services and customer support. Although the local market shows solid and steady growth in consumer sales, its absolute size remains too small for many international brand name manufacturers. These companies often postpone developing after-sale services and a customer support network until the market is more developed. As a result, when Ukrainian customers discover that a product labeled with a well known international brand name is not accompanied by after-sale services and customer support, he or she immediately assumes that this product is a counterfeit. On the other hand, educating local customers to western standards for after-sale services and customer support prevents counterfeiting, protects the importer's trademark and intellectual property rights (IPR), and helps to build a strong market demand for such products.

Protecting Your Intellectual Property

[Return to top](#)

Ukraine's protection of intellectual property rights (IPR) remains uneven. Ukraine is a member of the World Intellectual Property Organization, is a signatory to a number of international agreements and conventions, and has passed a large number of laws aimed at strengthening the protection of intellectual property. However, the legislative framework still contains loopholes, and enforcement of existing legislation is weak. In 1999-2000, Ukraine was Europe's largest exporter of pirated CDs, and as of March 2001, the U.S. Trade Representative designated Ukraine a Priority Foreign Country under the Special 301 provisions of the U.S. Trade Act of 1974. USTR's most recent assessment in May 2004 concluded that Ukraine should remain "a Priority Foreign Country."

The USTR in 2002 imposed trade sanctions on Ukraine because of failure to pass an effective law to license and regulate the manufacture of CDs and other optical media. Ukraine has made some progress in stopping the manufacture of illegal products, but it remains a major transit country for pirated material imported from Russia and shipped elsewhere to Europe. Ukraine's CD Licensing Law still needs to be amended to create a legal base for effective licensing and enforcement. If the law is amended and the right enforcement regime put in place, the USG could review lifting sanctions. Several attempts to amend the law have failed.

Trademark piracy is a common problem for domestic and foreign companies with well-known consumer brand names. Companies cannot expect law enforcement bodies to be pro-active in combating trademark piracy. Customs procedures for the registration of goods containing intellectual property can be burdensome. In addition, state agencies have been known to resell seized products as a source of revenue.

Despite these problems, support for needed changes is gradually growing within the government, the parliament and in society at large. The U.S. Government has supported Ukraine's efforts to bring its legislation in line with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements for WTO membership. A law designed to bring all laws into compliance with the TRIPS requirements passed in spring 2003. U.S. IPR experts have concluded that the bill fulfills the TRIPS requirements. It is too early to tell how effectively the law will be enforced.

Due Diligence

[Return to top](#)

Given the difficulties of doing business in Ukraine, it is advisable for a U.S. company to perform its own feasibility study before starting a project in Ukraine. Numerous opportunities in Ukraine carry a significant level of risk. The first step in undertaking a project in Ukraine is knowledge of costs, risks, and returns. Most of the risks are legal, permission-related, and practical. What constitutes conforming to code in the U.S. does not necessarily mean the same in Ukraine. The nuances and various possible interpretations of Ukrainian laws, rules, and regulations make it almost impossible for one person to understand all possible ramifications. In order for a contract to be truly enforceable in Ukraine one should have a lawyer, an accountant, and an interpreter even if the private investor is fluent in Ukrainian or Russian.

Official State statistics are often unreliable, and understanding market dynamics in Ukraine comes down to informed opinion. Local surveys and "experts" should be treated with some caution, because their objectivity can be blurred by conflicts of interest.

There is no viable system for checking the financial status of a Ukrainian partner, and information on bona fides of potential Ukrainian partners should be treated with caution. It is not a practice in Ukraine for banks to provide information on the financial status of their clients, and there is no nationwide service for registering enterprises of doubtful solvency.

Due diligence is performed by a Dun&Bradstreet representative in Ukraine – Avesta-Ukraine (www.avesta-ukraine.com.ua), or by western accounting/law firms and investment advisors with a permanent local presence.

To help U.S. companies evaluate a potential Ukrainian business partner, CS Kiev offers the International Company Profile service (see <http://www.buyusa.gov/ukraine/en/47.html>).

Local Professional Services

[Return to top](#)

Business service providers can be found at <http://www.buyusa.gov/ukraine/en/bsp.html> and <http://www.buyusa.gov/ukraine/en/51.html>

U.S. companies can find professional personnel for their Ukrainian operations through a number of experienced local and international recruitment agencies working in Ukraine. The major recruitment agencies in Ukraine include: Ancor SW (www.ancor-sw.com/), Alternativa (www.alter.com.ua), Brain Source International (<http://brain-source.com>), Egida (www.egida.com), Grand Personnel (www.gp.com.ua), Human Factor (www.humanfactor.com.ua), Management Consulting (www.mchr.com.ua/), Powerpact HR Consulting/Execusearch International TM (www.powerpact.com.ua), Staff Standard (www.stafstan.com), and the Association of Regional Recruiting Agencies of Ukraine (ARKA): <http://www.arka.com.ua>.

Web Resources

[Return to top](#)

<http://www.bizukraine.com/employment.htm>
http://ukraine-today.com/business/person_agenc/personnel_agencies.htm
<http://ukraine-today.com/business/employment/index.shtml>
<http://www.ukrjob.hut.ru/agency.php>

[Return to table of contents](#)

Chapter 4: Leading Sectors for U.S. Export and Investment

- [Agricultural Sector](#)

Commercial Sectors

- [Agricultural Chemicals \(AGC\)](#)
- [Agricultural Machinery \(AGM\)](#)
- [Airport/Ground Support Equipment \(APG\)](#)
- [Automotive Parts/Services Equipment \(APS\)](#)
- [Building Materials \(BLD\)](#)
- [Computer and Peripherals \(CPT\)](#)
- [Computer Software and Services \(CSF\)](#)
- [Drugs and Pharmaceuticals \(DRG\)](#)
- [Electric Power Systems \(ELP\)](#)
- [Food Processing and Packaging Equipment \(FPP\)](#)
- [Medical Equipment \(MED\)](#)
- [Oil and Gas Field Machinery \(OGM\)](#)
- [Pollution Control Equipment \(POL\)](#)
- [Security And Safety Equipment \(SEC\)](#)
- [Telecommunications \(TEL\)](#)
- [Travel and Tourism \(TRV\)](#)
- [Retail \(RTL\)](#)

Agricultural Chemicals (AGC)

Overview

[Return to top](#)

The estimated annual size of the pesticides market in Ukraine is USD 130-150 million, while its potential demand totals almost USD 1 billion.

The agricultural chemicals market is still in a state of flux, and offers opportunities for U.S. producers of new low-chemical, low-risk products. The market for pesticides in Ukraine is fairly large. The overall annual demand for pesticides is currently estimated at 30-35 thousand tons needed to cover an area of 20 million hectares. A substantial amount of harvested crops are lost due to pests, fungus, and weeds. As a result of this lack of pesticides, over 30 percent of the annual crop harvest is lost.

Approximately 70-80 percent of the pesticides currently sold in Ukraine are imported. Because domestic pesticide production lacks raw materials, the demand for plant-protection chemicals provides real incentives to importers of agricultural chemicals. Most companies marketing pesticides in Ukraine represent European subsidiaries of foreign multinational companies.

Best Products/Services

[Return to top](#)

Local pesticide and agricultural chemical production meets only 20 percent of Ukraine's annual needs, and even this limited production depends on imported raw materials. Local production of pesticides utilizing local compounds is expected to meet only one fourth of the total demand this year. Ukraine will need to rely on imported chemical compounds to meet the demand for pesticides.

Competition within the agro-chemical market in Ukraine is complex, due to the presence of many foreign companies distributing products directly and through their local distributors. U.S.-made pesticides have an excellent reputation for efficiency and environmental friendliness. U.S. companies (and their European subsidiaries) have a strong competitive position in the herbicide, insecticide and seed disinfectant markets. However, fungicides are still dominated by Swiss and Ukrainian companies.

Currently, about thirty companies supply agricultural chemicals to the Ukrainian market. Sales to locally licensed or authorized intermediaries and distributors are the most prevalent marketing strategies.

Opportunities

[Return to top](#)

The best potential for U.S. firms wishing to enter the market and those already operating in Ukraine is in pesticides that combat weeds, plant diseases and insects. Since agricultural producers cannot grow decent yields of crops without the use of pesticides, it can be projected that the pesticide market (i.e. for herbicides and insecticides) will continue to grow.

Resources

[Return to top](#)

Ministry of Agrarian Policy of Ukraine: <http://www.minagro.kiev.ua/newenglish/index.html>

European Business Association Agrochemical Committee
<http://eba.com.ua/activities/committees/agrochemical/>

Ukrainian Crop Protection Association: <http://ucpa.org.ua/> (Ukrainian language only)

Agribusiness news:
<http://www.agriukraine.com/>
<http://www.agroperspectiva.com/en/>

Agricultural Machinery (AGM)

Overview

[Return to top](#)

According to various resources, an immediate demand to replenish the physically depreciated farm and processing equipment in Ukraine is estimated at \$5-10 billion, with an annual supply of \$1-2 billion worth of farm equipment.

Experts estimate the current level of physical depreciation of agricultural machinery and equipment at 70-80 percent, compared to 55-60 percent in 1999. Approximately 40 percent of tractors are 15-25 years old. The need to replace basic farm machinery is becoming critical.

Best Prospects/Services

[Return to top](#)

There are about 40 manufacturers of agricultural machinery in Ukraine, which still supply a significant part of Ukraine's agricultural machinery, in particular, ploughs, harrows, cultivators, seeders and sprayers. Production facilities at most agricultural machinery plants are currently being utilized at levels ranging from 15 to 30 percent. The price of domestically produced agricultural machinery is not cheap, because of inefficient and outdated manufacturing technologies. All this makes local machinery less attractive for agricultural companies.

Western European firms actively operate in the Ukrainian market. They understand that despite the obstacles to doing business in Ukraine, the potential for hard currency agribusiness exports is great.

U.S. agricultural machinery has a good reputation in Ukraine. The list of U.S. manufacturers includes AGCO Corporation, Massey Ferguson, John Deere, Caterpillar, and Case/New Holland. They offer a full range of equipment and parts, including spare parts, for cultivating, growing, harvesting and transporting, as well as equipment for livestock production. While U.S. machinery is well represented in Ukraine, there are still good opportunities for U.S. companies to enter the Ukrainian agricultural machinery market. Existing critical demand for reconditioned (used) machinery is worth mentioning as well.

Opportunities

[Return to top](#)

The supply of second-hand machinery from Europe has gradually decreased, and with the dollar exchange devaluation, this opens more opportunities for American exporters of used agricultural machinery. There is currently a critical demand for dependable farm machinery due to the lack of reliable domestic manufactures. High-quality U.S. equipment can have a positive impact on Ukrainian agricultural productivity. Ukraine also offers excellent opportunities for US companies to expand to other regional markets such as Russia, other CIS countries, and new European Union (EU) member countries in Central and Eastern Europe.

Resources

[Return to top](#)

Ministry of Agrarian Policy of Ukraine: <http://www.minagro.kiev.ua/newenglish/index.html>

Agribusiness news:

<http://www.agriukraine.com/>

<http://www.agroperspectiva.com/en/>

Collocated agri-food trade shows – Kiev AgriHort (agricultural machinery and chemicals) and UkrProdMash (food and drink processing and packaging technologies and equipment). Show organizers web sites: www.bto-exhibitions.nl and www.pe.com.ua

Airport/Ground Support Equipment (APG)

Overview

[Return to top](#)

Since 2000, the Ukrainian civil aviation industry has demonstrated steady growth in passenger turnover, with traffic increasing from an annual 6 percent in 2000 to over 34 percent in 2003 and 36.4 percent in 2004. In 2003, air cargo transportation grew by over 64.3 percent in Ukraine to 148.4 tons vs. 90.3 tons in 2002. Despite the slowdown in global commercial aviation following September 11, 2001 in the United States, the traffic growth in Ukrainian airports has not been affected. Local experts predict that this positive trend will continue, provided that current economic development stays on track.

Best Prospects/Services

[Return to top](#)

Ukrainian airports have the potential to service six million passengers annually (according to data provided by the Ukrainian Ministry of Transportation), but currently operate at fewer than 40 percent capacity. Kyiv-Boryspil (KBP) is the largest Ukrainian airport servicing over 50 percent of the country's commercial air traffic. Over 2.3 million passengers flew through Boryspil in 2003, a 14 percent increase compared with 2002. The airport served 72 local and foreign airlines in 2003, which operated scheduled flights to 103 destinations in 37 countries. Boryspil serves 36,000 flights per year, including almost 75 percent of international flights to and from Ukraine. The GOU hopes to turn Boryspil Airport into a Central and Eastern European hub for most major international connections, while the regional airports would feed travelers from regions. Practically, all of Ukraine's regional airports require modernization and significant investments to improve runways, passenger or cargo terminals, technological systems, transport and communications. However, the poor financial condition of most of Ukraine's airports (except Boryspil) does not provide them sufficient funds to modernize terminals and create competitive services.

Most of the equipment working in Ukrainian airports is based on technology of the early 1990s. Historically, airports had centralized supply of equipment according to norms of the Soviet Ministry of Civil Aviation. Today airports themselves make necessary procurements. Ukraine's airport industrial base is not technologically advanced, and is not able to satisfy the majority needs of airport infrastructure. There are very few local manufacturers for products required in this sector. The exceptions are local construction companies and local steel structure fabricators that can offer better prices than foreign suppliers. Lighting and signaling equipment, air bridges, anti-icing equipment and deicing fluid, baggage and cargo handling systems, elevators, loaders and reloading containers, airfield movers, security equipment, air-conditioning and heating systems are in demand.

Air Navigation Equipment. The Ukrainian State Air Traffic Service Enterprise (UkSATSE) is responsible for the operation of the Ukrainian air navigation system (ANS). It operates five regional centers of flight information, which cover an area of 730,372 square kilometers, and provide navigation services to an average 200,000 flights per year.

The equipment and infrastructure used in providing air navigation services in the Ukrainian airspace are in need of update and modernization. In late 2003, the GOU completed a tender process, based on a European Bank for Reconstruction and Development (EBRD) \$23 million loan, for several projects, as part of its airspace and air traffic control modernization program. UkSATSE will need to import all of the equipment (including MSSR and VCS radars), as well as develop new air traffic control (ATC) Centers in Dnipropetrovsk and Simferopol.

Opportunities

[Return to top](#)

The Ukrainian flagship carrier Aerosvit Ukrainian Airlines started an ambitious Terminal D development project at Boryspil Airport in October 2004, with a total cost of around \$100 million. The airline plans to invest \$24 million of its own funds and raise the remainder from international lenders. The new Terminal D is expected to be launched in March 2006 and will consist of a 31,000 square meter three-level terminal building, seven aerobridge gates, a 300-meter gallery to connect with the existing main Terminal B, a 16.4 square meter parking lot, a line of retail and food shops, business and conference lounges, and a hotel. When completed, the Aerosvit Terminal will have a projected capacity of 2,000 passengers per hour (3.5 million per year) and can be gradually increased to 4,000 passengers/hour (8 million passengers per year by 2015). As of October 2004, Aerosvit was conducting an international tender for equipment suppliers.

In 2003, air cargo transportation grew by over 64.3 percent in Ukraine to 148.4 tons vs. 90.3 tons in 2002. Having in its possession a fleet of the world's largest air freighters Antonov-124s and Antovov-225s, Ukraine offers good sales opportunities for U.S. firms involved in cargo terminal engineering and operations, cargo handling equipment, air navigation and ground support equipment, and freight forwarding and chartering. Additional opportunities exist in a planned conversion of former military airbases into cargo airports, actively promoted by the GOU.

U.S. suppliers seeking to enter the Ukrainian market are advised to establish long-term partnerships directly with Ukrainian airports and the Ukrainian civil aviation authority Derzhaviasluzhba. Local firms, because of the local availability of raw materials and labor, traditionally dominate in construction projects. U.S. companies should do well in providing engineering and consultant and management services, as well as high technology security systems and computer technology products. Software systems that address the stringent environmental requirements are also an area in which American companies have a competitive advantage. Opportunities exist for new baggage handling and scanning equipment, people movers and new arrival and departure information systems.

Resources

[Return to top](#)

State Civil Aviation Authority "Derzhaviasluzhba": <http://www.ukraviatrans.gov.ua>
Kyiv-Boryspil International Airport (KBP): <http://www.airport-borispol.kiev.ua/>
Aerosvit Ukrainian Airlines: <http://www.aerosvit.com/>

Automotive Parts/Service Equipment (APS)

Overview

[Return to top](#)

In 2004, Ukrainian motorists bought 212,000 cars (estimated USD 1.5 billion value). According to a Ukrainian industry expert, this trend will increase and more western brand cars will appear on Ukrainian roads.

The Winner-Ford dealer and the local GM-Ukraine dealer represent direct imports from the U.S.A. of American cars, which sell two models of American autos. Both have locally established dealerships with service centers. Other American car brands are bought from Russian and Western Europe dealerships.

The most common car in Ukraine has an engine volume of less than 2,000 cubic centimeters. To serve such market conditions, GM is represented in the Ukrainian market with Daewoo and Opel car models, which are assembled at the AvtoZAZ-GM-DAT joint venture located in Zaporizhya.

According to Ukrainian industry experts, as of January 2004, Ukraine counted 5,560,000 cars registered in Ukraine, half of which are vehicles over eight years of age. Annually, there is a 2-3 percent increase in the total number of cars.

Best Prospects/Services

[Return to top](#)

The Ukrainian market for auto parts is developed and competition is high. The supply of new parts for cars is abundant both for CIS manufactured and Western car models. According to Ukrainian industry experts, the Ukrainian market for new and used spare parts is valued at an estimated \$ 240 million annually.

The main suppliers of auto parts in Ukrainian cities are automotive service stations, and unions of auto dealers and small salespeople, which buy wrecked and old vehicles for parts. Automotive junkyards are also important sources for spare parts. Spare parts account for an estimated \$70 million of the total Ukrainian automotive car market.

Opportunities

[Return to top](#)

Car body, engine, fuel and electric car parts

The annual Ukrainian market for this group of spare parts is estimated at \$30 million. The strongest demand is for front and rear lights, bumpers, radiator grills, wheel disks and calipers, hood and trunk lids, wings (i.e. the parts most vulnerable in car accidents). Starters, generators, radiators, gearboxes, and doors are also needed.

Car Batteries

About 1.1 million automotive batteries are sold annually in Ukraine, 20 percent of which are imported. Two domestic manufacturers dominate, but at least 10 foreign producers

have introduced their products to the market. Sales of local products total US\$33 million; imports total US\$14 million per year.

Car Filters

Ukraine has a \$ 30 million oil, air and gas filter market. The annual demand is estimated at 40 million filters. Some 75 percent is supplied from CIS countries, and 25 percent (for Western cars) is supplied from abroad. About 63 percent of all filters sold are for oil and lubrication, 21 percent for air, and 16 percent for gasoline.

Tires

Annual sales of automotive and truck tires total around \$ 80-85 million. Annual imports total \$ 40 million and local production \$ 45 million.

Automotive Glass

The Ukrainian market for automotive glass is estimated at \$ 15 million, with imports totaling \$ 10 million. Windshields account for 70 percent, side windows 25 percent, and rear glass 5 percent of annual sales.

Car Security And Anti-Theft Devices

According to Ukrainian auto spare part wholesalers, sales of various anti-theft security devices in Ukraine are estimated at \$12-15 million annually. According to estimates of Ukrainian car parts and accessory sellers, the annual Ukrainian market for various car security systems is comprised of 90-100 thousand anti-theft electronic systems, 50-60 thousand non-removable mechanical locks and 30-40 thousand of removable locking devices.

Brakes and parts

The Ukrainian sales potential for automobile brakes and parts is valued at \$ 20-23 million. Imported brake shoes account for about 90 percent of the market, leaving domestically produced brake shoes only a 10 percent share.

Shock absorbers

The market for car shock absorbers in Ukraine accounts for an estimated \$ 15 million. Imports account for 70 percent (estimated \$ 10.5 million) and domestic products for 30 percent (estimated \$ 4.5 million).

Resources

[Return to top](#)

<http://www.autocentre.ua>

<http://www.autoconsulting.com.ua>

Building Materials (BLD)

Overview

[Return to top](#)

The Ukrainian market for building materials offers sound opportunities for American exporters. The developing Ukrainian construction industry is looking for new supply sources and contacts. The annual import market for building materials is estimated at \$ 570-580 million.

Best Prospects/Services

[Return to top](#)

It should be noted that not all imported building products have good marketing potential in Ukraine.

Low market demand is evident for: imported cement, bricks (domestic production is abundant), clay roofing shingles (Customers desire metal shingles or asbestos roofing materials.), asphalt shingles, and bituminous tarpaper.

Moderate market demand is evident for metal roofing components. Seven domestic metal producers are able to fulfill demand, although fixtures, sheeting and anti-corrosion components for production are imported. Imported metal shingles are available from Finland, Sweden, Germany and Poland.

In the cement industry, local producers of dry mixes are numerous, but the quality is not always acceptable. Nearly all local manufacturers import chemical binding, conditioning, and coupling agents. Prices for these imports, however, have begun to rise, opening the door to new low cost suppliers.

Best Sales Prospects include:

- a. Linoleum (Imported linoleum has improved coloring; is more than 2 meters wide.);
- b. Carpet and tufted floor covering (There is only one domestic producer.);
- c. Interior ceramic tiles (Imported tiles have improved coloring and size variety.);
- d. Insulation (Imported mineral wool has improved packaging, variety in sizes and pricing.);
- e. Paints (Local production is abundant for alkyd penta- phthalic oil paints, but production of acrylic paint is sporadic.).

Opportunities

[Return to top](#)

The Ukrainian market for building materials is highly competitive. German, Italian, Scandinavian, French, and Spanish exporters are aggressively promoting their products. Many well-known European brands are represented at construction shows held in Kyiv. U.S. building products have increased their market share, but remain a small percentage of the overall building materials market.

Major distributors have set up building material chains and supermarkets as one-stop shops for consumers and wholesalers. Price and quality are the decisive factors in consumer choice. To reduce prices and increase competitive advantage, several

European companies have established joint ventures to manufacture building materials in Ukraine.

Kyiv is well supplied with imported building materials. Pricing for building materials in more remote areas is higher than in central and western Ukraine, although the gap is decreasing. Kharkiv, Dnipropetrovsk, Donetsk, L'viv, Odessa, and Zaporizhzhya offer potential for foreign exporters and investors interested in expanding operations into Ukraine. Cooperating with importers located in or oriented toward industrial regions of Ukraine may be advantageous for U.S. exporters.

In most cases, local production of building materials satisfies the need of the construction industry for low cost items, when compared to imported products. But this price differential is decreasing, making room for the importation of foreign building materials.

Resources

[Return to top](#)

<http://www.stroyrec.com.ua>

Computers and Peripherals (CPT)

Overview

[Return to top](#)

	2002	2003	2004 (estimated)
Total Market Size (Thousand units)	500-650	600-780	700-900
Total Local Production	93-95%	93-95%	93-95%
Total Exports	N/a	N/a	N/a
Total Imports	5-7%	5-7%	5-7%
Imports from the U.S.	N/a	N/a	N/a

The exact size and structure of the Ukrainian computer hardware market is difficult to measure, since shadow local production and shadow imports of components remain among the key factors that determine the structure of the market. Industry insiders estimated the capacity of the local personal computer (PC) market in 2003 at 780,000 units, and anticipated that almost 930,000 PCs would be sold in 2004. PCs assembled in Ukraine currently account for more than 90 percent of the total PC market. This ratio is different with notebooks where international brands account for 70 percent of the market, and servers, where local manufacturers and importers claim an equal share of the market.

Computer manufacturers represent less than 10 percent of approximately 700 companies currently operating on the local computer market. Although there are dozens of small PC assemblers in Ukraine, only a small number (6-10) of companies determine the profile of the local computer manufacturing industry.

All experts underline a trend for a decreasing share of desktop systems, and increasing sales of portable systems and servers.

Government procurement (including education programs funded through the state budget) and corporate sector (including banking) account for 65 percent of the total computer market. These sectors do not necessarily offer the best profit margin to the equipment supplier. Proceeds from systems integration, supply of software, maintenance, and repair far exceed revenues received from the simple sale of hardware. This is why all major local computer manufacturers do their best to position themselves in the market as systems integrators rather than only manufacturers. Major suppliers of computer equipment dominate the government and corporate markets. The market share of international brands is much higher in this market sector than in the overall market.

The other 35 percent belongs to small and medium-sized businesses and individuals. This sector, although smaller than government and corporate, is much more dynamic and is growing quickly. This is also the main market for dozens of small local assemblers of PCs.

The main source of computer components for Ukrainian assemblers is Asia, while computer peripherals are mostly imported from Europe.

Best Products/Services

[Return to top](#)

Electronic components, notebooks, servers, systems integration

Resources

[Return to top](#)

1. Euro index, leading organizer of IT trade shows in Ukraine - <http://www.euroindex.com.ua/index.php?m=1&lng=e>
2. Leading IT publications and catalogs - <http://www.itcpublishing.com/ua/?lang=en>
3. Association of computer clubs - <http://www.uacc.org.ua/en>

Computer Software and Services (CSF)

Overview

[Return to top](#)

A more legitimate and transparent market for computer software is slowly taking shape in Ukraine. Enforcement of IPR legislation as well as steady growth of the Ukrainian economy in 2000-2004, and resurrection of local manufacturing industries have generated a substantial increase in demand for computer software for industrial and business needs.

The exact size of the Ukrainian computer software market is difficult to measure, because both major sub sectors of the computer software market: imported software and software development feel a severe impact of the shadow economy. Imported software dominates on the office software market and on the market of software solutions for government, businesses and industry. Market research conducted by GfK-USM Company shows that operating systems, office applications, archives, antivirus packages, and accounting programs are the sales leaders.

Windows and Microsoft's Office programs are currently the most widely used office software in Ukraine. This software is installed on approximately 98 percent of all PCs operating in the country. Some industry experts estimate that up to 90 percent of the office software is illegal. Illegal imports of pirated office software, illegal use of software licenses and domestic pirate industry production have a severe impact on the size of the legitimate software market. However, most U.S. and international suppliers of software reported strong sales growth (24-53 percent) in 2004. It is especially significant, that there is a very strong and growing demand for U.S. made sophisticated security software. These successes of software suppliers would be even more impressive if not for obstacles created by complicated and controversial Ukrainian licensing procedures and customs regulations.

Computer software services also play an increasingly important role. According to GfK-USM data 24.8 percent of computerized entities outsource automation solutions and 38.2 percent of entities use technical support services.

Ukraine is slowly emerging as a low cost site for high quality software development. Unofficial estimates indicate that this industry employs 25,000 certified programmers and many more specialists of different backgrounds and qualifications. Industry experts believe that computer software development accounts for 10-30 percent of IT market revenues. This means \$150-300 million in monetary terms. Industry insiders disagree on the ratio between software development for domestic needs and for exports (including outsourcing). Some experts believe that this ratio is 70/30 percent. The others feel that 40/60 percent is more realistic. However, all experts agree that software exports grow better than the domestic market. Experts believe that export sales of software are between \$70 million and \$200 million. Average annual export sales for forty leading software-developing firms vary from \$ 315,000 to \$6 million per company. The total number of software developing firms is 1,030. Almost 300 companies specialize in offshore outsourcing development projects. Company staff varies from 10 to 380 employees.

Best Products/Services

[Return to top](#)

Operating systems, office applications, archives, antivirus packages, accounting programs

Resources

[Return to top](#)

1. Association IT Ukraine www.itukraine.org.ua
2. Ukrainian Association of Software Developers www.uaswd.org.ua
3. Euroindex, leading organizer of IT trade shows in Ukraine - <http://www.euroindex.com.ua/index.php?m=1&lng=e>
4. Leading IT publications and catalogs - <http://www.itcpublishing.com/ua/?lang=en>
5. Association of Computer Clubs - <http://www.uacc.org.ua/en>

Drugs and Pharmaceuticals (DRG)

Overview

[Return to top](#)

	2002	2003	2004 (estimated)
Total Market Size	682	842	968
Total Local Production	320	363	406
Total Exports	40	51	61
Total Imports	402	530	623
Imports from the U.S.	14	20	23

(In millions of \$ U.S.)

(Source: the Ministry of Health of Ukraine)

The Ukrainian pharmaceutical market shows stable growth for the past four years. This growth results from increases of both imports and local pharmaceutical production.

Imported pharmaceuticals accounted for 63 percent of the total market in 2003. The leading pharmaceutical exporter to Ukraine is Germany (19.2 percent of all imported pharmaceuticals). France holds second place (11.3 percent). India is a close third (11.1 percent share). The U.S. share in 2003 was 3.8 percent. Most of the multinational pharmaceutical manufacturers are present in the Ukrainian market either with representative offices or through local distributors.

The local pharmaceutical industry is increasing its production and exports mostly to Russia and the CIS countries. There are 58 major pharmaceutical manufacturers in Ukraine, most of them private. Domestic manufacturers operate in the lowest price segment of the market, supplying predominantly generic drugs, brand generics and vitamins. The largest local producers are: Darnytsia, Kyivmedpreparat, Pharmak, Borshchahivsky Chemical and Pharmaceutical Plant (Kiev); Stryrol (Donetsk); Zdorovia (Kharkiv); Halychpharm (Lviv); and Biostimulator (Odessa).

Best Products/Services

[Return to top](#)

The best selling ATC2 (Anatomical, Therapeutic, Chemical 2) categories in Ukraine include analgesics, antibiotics, vitamins, cough & cold preparations, cholagogue-hepatics, phycolectics and vasotheapeutics. The best sales performances are by companies, which have strong over the counter (OTC) volume.

Opportunities

[Return to top](#)

In late 2000, the Ukrainian government extended its deadline from 2002 to 2007 for pharmaceutical producers to become good manufacturing practices (GMP) compliant. This affects only manufacturing sites located in Ukraine. In the longer term, some multinationals may look closely at potential acquisitions or joint ventures in Ukraine. Access to local manufacturing capacity would offer significant advantages in the current

regulatory climate. It should become clear in the next several years which domestic producers are likely to succeed in efforts to reach international GMP standards.

Resources

[Return to top](#)

Ministry of Health of Ukraine: <http://www.moz.gov.ua>

Electrical Power Systems (ELP)

Overview

[Return to top](#)

	2002	2003	2004 (estimated)
Total Market Size	1750	1850	1900
Total Local Production	N/a	N/a	N/a
Total Exports	N/a	N/a	N/a
Total Imports	N/a	N/a	N/a
Imports from the U.S.	230	240	245

(In million US\$. The above statistics are unofficial estimates. Other statistics are not available for this sector.)

Ukraine's power generation comes mostly from nuclear and thermal coal/gas-fired power plants, with a small input from hydro and co-generation. The nuclear sub sector is state-owned and still depends on Russia for all its nuclear fuel and essential equipment, since its Soviet-type reactors only operate on Russian-made fuel assemblies. Ukraine has no indigenous nuclear fuel cycle capabilities, and must ship its spent nuclear fuel to Russia for storage. This costs Ukraine more than \$90 million per year.

In 2001, the first dry storage for spent nuclear fuel was put into operation at the Zaporizka Nuclear Power Plant, with Duke Engineering (US) managing this construction project. The construction of two major decommissioning facilities for spent fuel storage and liquid waste processing, is being finished at the Chornobyl Nuclear Plant site. The Ukrainian Government plans to build the central spent fuel storage facility at the Chornobyl site for its 15 operating nuclear reactors that provide for about 50 percent of electricity generated in Ukraine. In January 2005, the Ukrainian Government announced that New Jersey-based Holtec International was the winner of the tender to build this facility. Holtec technology is designed to safely transport and store spent nuclear fuel.

Ukraine's thermal power generation sub sector is mostly state-controlled, with outdated equipment and lack of funding for upgrades. The only private thermal power generating company, Vostokenergo, is investing in upgrading its three coal-fired power plants. The power distribution system is 30 percent private, and private shareholders invest in upgrading the transmission lines, installation of efficient monitoring, metering and control systems.

Major U.S. companies working in Ukraine's power sector include: AES – electric power distribution. It owns and operates Kyivoblenergo and Rivneoblenergo regional power distribution companies. Emerson Process Management, Honeywell, GE International, and American Power Systems supply automation and process controls, non-interruptible power supply systems. Washington Group and Duke Engineering furnish nuclear waste management services. Caterpillar supplies engines and gensets. Pratt & Whitney performs turbine blade refurbishment in a joint venture with Patton Welding Institute. Teledyne Laars, Mestek, and Lochinvar supply water heaters and steam boilers.

Best Products/Services

[Return to top](#)

Best products include: high-voltage and energy-saving technologies, including electric components for high-voltage and low-voltage equipment; switching equipment (including high-voltage bushings); electric current and voltage transformation equipment; accumulator batteries, assorted bearings, circuit breakers, disconnectors, support insulators, and generating sets.

Technology, equipment and software for power distribution and transmission are needed including distribution substations, cable lines, electric power transmission lines, monitoring, metering and automation technologies and SCADA systems.

Equipment for thermal power plants is in demand, including technologies for burning coal and for reducing pollution when burning coal; water purification and cooling technology; electrical products for relay protection and automation; technology for replacing the winding for turbo generators of 1000 MW capacity; efficient steam and gas turbines and turbine auxiliaries; and process instrumentation and controls.

Other products include: electrical motors for feeding pumps, portal cranes and conveyor belts, low and medium capacity boilers, tubular stacks for boilers, assorted valves, super-heaters, spare parts for fans, piping for boilers, steam ejectors, metering pumps, and nickel-steel tubing.

Technologies for alternative/renewable power are needed, including: solar heating systems and solar batteries for Crimean customers; technology for wind power generation, mostly large capacity (600 kW-1MW) wind power turbines for industrial applications; and small-capacity (up to 50kW) wind power turbines for private Ukrainian consumers (farms, cottages etc.).

Opportunities

[Return to top](#)

The Central Spent Fuel Storage facility at the Chornobyl site: Holtec International, a general contractor for this project, estimates the immediate total project value at \$150 million and long-term extended business at more than \$1 billion. The company also says that it will export an estimated \$80 million in U.S. content in the form of subcomponents, specialized materials, and services, including engineering, design, licensing, and the transfer of manufacturing and quality assurance infrastructures to Ukrainian subcontractors.

Chornobyl Shelter Implementation Plan (SIP) and New Safe Confinement Construction Project: International tenders will be held for procurement of various categories of equipment and services within the SIP. The New Safe Confinement project was announced in late 2004. Total project value is estimated at \$500 million. U.S. export content could total \$270 million. Some \$ 250 million is requested from international donors for contingency and risk management.

The Kyiv District Heating Improvement Project: (total cost US\$ 250 million) includes refurbishment of the heat supply system in Kyiv and on-going open tenders for procurement of necessary equipment and technology. The responsible agency is Kyivenergo Power Generation and Distribution Company.

The Kyiv Public Building Energy Efficiency Project is currently under implementation, with on-going open tenders for procurement of necessary equipment and technology. The responsible agency is the Kyiv City State Administration. The total project cost is about \$ 30 million. Project objectives include improving energy efficiency in schools, hospitals, kindergartens, and administrative and public buildings in Kyiv City.

Major opportunities (largely dependent on financing from international financing institutions) are available in upgrading the centralized municipal heating systems, which are in use in most Ukrainian cities, and are worn-out and unreliable. Pavlograd and Odessa City Councils, Kharkivteploenergo Company and Ukrenergoconsulting Company are looking for investments and equipment suppliers for their city district heating upgrades and CHP plant refurbishing projects. The Berdiansk Mayor is promoting an investment project of decentralized city heating and installation of individual boiler units. The Yalta City Council and Kyiv City Council are looking for investments and technology for their waste-to-energy plant projects.

Resources

[Return to top](#)

The Central Spent Fuel Storage facility at the Chornobyl site: OPIC covers risk insurance, and U.S. Export-Import Bank secures U.S. export financing.

Chornobyl Shelter Implementation Plan (SIP) and New Safe Confinement Construction Project: financed from the Chornobyl Shelter Fund and Nuclear Safety Account, both administered by EBRD, with G-7 countries contributing. Energoatom, the national nuclear power generating company, which manages Ukraine's nuclear power plants, approves equipment procurement actions.

Kyiv District Heating Improvement Project: US\$ 200 million loan from the World Bank, US\$ 50 million from Kievenergo.

Kyiv Public Building Energy Efficiency Project: US\$ 18 million loan from the World Bank, US\$ 12 million from the Kyiv City budget.

Other resources: U.S. Trade Development Agency (TDA) – funding project feasibility studies. EBRD has local representation in Ukraine and is looking for solid projects to finance. Local commercial banks, including international banks' representations (CITI Bank, HVB, Raiffeisen).

Food Processing and Packaging Equipment (FPP)

Overview

[Return to top](#)

Considering its size, the Ukrainian food industry represents a tremendous potential for U.S. companies. State Statistics of Ukraine indicate direct foreign investment in the food industry in 2004 totaled \$ 988.3 million, which is 15 percent of all total direct investment in Ukraine.

Food processing is one of the fastest-developing sectors of Ukraine's economy, growing an estimated 20-30 percent annually. The market reforms and the opening of the Ukrainian market have brought about a significant change in the range, appearance and quality of food products over the past seven or eight years. From a widely fragmented market with unbranded product lines, the Ukrainian food and drinks market has been transformed into a relatively developed market featuring a wide range of both international and local brands. Within the last five years more than ten supermarket chains have started operating in Ukraine. Nearly 97 percent of foodstuffs consumed in Ukraine are produced domestically. These products include meat, poultry and dairy products; macaroni, confectionery and bakery products; alcoholic and non-alcoholic drinks; canned meat and vegetables.

The need for food processing and packaging machinery continues to rise steadily and is expected to grow for the foreseeable future. There is no official data regarding the size of the Ukrainian food processing and packaging machinery market.

Best Products/Services

[Return to top](#)

The market for processing and packaging equipment in Ukraine has grown with the demand for safe, attractively packed food products with long shelf life. Ukrainian food producers are upgrading their production facilities and searching for new technologies that will enable them to remain competitive in the domestic market and allow them to increase exports. With upgraded processing and packaging technology, Ukraine can conceivably become an important exporter of processed food to the former Soviet Republics, Central Europe, and the Black Sea Basin. There is a strong preference for foreign equipment (better quality and technology) and in many cases there are no local manufacturers of certain food-processing and packaging equipment. There is also a large potential market for reconditioned and used equipment.

Despite Ukraine's attempts to replace previously imported food processing and packaging equipment with locally produced equipment, it is highly unlikely that Ukraine will produce equipment in the near future that will meet world standards. The market share for food processing and packaging equipment held by American companies is low in comparison with their European competitors. European suppliers present a strong and competitive image in the marketplace. Nearly 80 percent of the imports come from major suppliers in Germany, Italy, Sweden, and Denmark. Major Eastern European suppliers are located in Hungary and Poland, although their market shares are now

declining because they offer little cost advantage over Western European manufacturers.

Opportunities

[Return to top](#)

The market for food processing and packaging equipment in Ukraine is likely to expand in the next several years, especially in the following areas: (a) equipment for higher value-added processing or secondary processing; (b) energy-efficient equipment; (c) small-capacity production equipment (especially for large agribusinesses that have split into small and medium-sized companies); and (d) packaging equipment that ensures a longer shelf life and proper hygiene for processed products. The best sales prospects for FPP (including used or refurbished equipment) are: dairy equipment, baby food production equipment, pasta and bread-making equipment, equipment for breweries, equipment for producing and bottling beverages, fruit and vegetable processing equipment, vegetable oil extraction and refining equipment, and equipment for candy production and packaging.

Resources

[Return to top](#)

State Foodstuffs Department of the Ministry of Agrarian Policy of Ukraine:
<http://www.fooddept.gov.ua/> (Ukrainian language only)

Agribusiness news:

<http://www.agriukraine.com/>

<http://www.agroperspectiva.com/en/>

Collocated agri-food trade shows – Kiev AgriHort (agricultural machinery and chemicals) and UkrProdMash (food and drink processing and packaging technologies and equipment). The show organizers web sites are: www.bto-exhibitions.nl and www.pe.com.ua

Medical Equipment (MED)

Overview

[Return to top](#)

	2002	2003	2004 (estimated)
Total Market Size	240	290	330
Total Local Production	200	220	240
Total Exports	90	100	120
Total Imports	130	170	210
Imports from the U.S.	15	25	35

(There are no accurate statistical data on the size of the Ukrainian medical equipment market. The above statistics are unofficial estimates.)

Imported equipment dominates the market. The major exporter to Ukraine is Germany. Medical equipment traders are prime contacts for U.S. businesses entering the Ukrainian market, due to their extensive networks and ability to identify buyers. The major purchasers of medical equipment are state-owned regional and “vidomichi” (departmental) hospitals, the latter owned by various ministries and enterprises. The potential for private hospitals is increasing.

Best Products/Services

[Return to top](#)

Best sales prospects for U.S. exporters include: laboratory equipment, radiographic units, electro-medical equipment, dental equipment, laser surgery devices, sterilization devices, diagnostic systems and disposable items.

The market potential for laboratory equipment (i.e. centrifuges, ultracentrifuges, spectrophotometers, nuclear counters, and blood grouping systems) is high in Ukraine. Opportunities exist for electro-medical equipment and dental equipment (i.e. complete workstations, dental syringes, needles and laboratory products).

Opportunities

[Return to top](#)

The Ukrainian market is receptive to high-quality, advanced diagnostic and therapeutic equipment. Innovative technologies such as laser-optics in vascular surgery, urology, gastroenterology, dermatology and neurosurgery, and new diagnostic devices are becoming more popular. Modern equipment offering ease of use and cost savings is required in the fields of microsurgery, radiology and biomedicine.

Resources

[Return to top](#)

Ministry of Health of Ukraine: <http://www.moz.gov.ua>

Oil and Gas Field Machinery (OGM)

Overview

[Return to top](#)

	2002	2003	2004 (estimated)
Total Market Size	1170	1210	1250
Total Local Production	N/a	N/a	N/a
Total Exports	N/a	N/a	N/a
Total Imports	62	70	79
Imports from the U.S.	18	23	30

(In million US\$. The above statistics are unofficial estimates. Other statistics are not available for this sector.)

There are three petroliferous provinces in Ukraine: in the west (the Carpathian region), in the east (the Dnipro-Donetsk region), and in the south (the Black Sea and the Crimea region). Ukraine's hydrocarbon resources are estimated at 7-8 billion tons of fuel equivalent. Average annual oil and gas production amounts to 18 billion cubic meters of natural gas and 4 million tons of crude oil, and covers 21-24 percent of the demand for natural gas and 10-12 percent of the demand for crude oil in Ukraine. Ukraine does not manufacture pumping equipment capable of producing below 6,000 feet. Many of the fields on-shore are in depths of 10,000 to 15,000 feet. Local production of drilling machinery is limited. Stimulation technologies such as hydraulic fracturing and acid stimulation are not available. Three-D seismic has not been used on-shore, and drilling equipment is antiquated and has difficulties drilling below 15,000 feet. Ukraine has substantial offshore natural gas and crude oil reserves, but does not have the technology to drill underwater deeper than 70-80 meters (200 feet). Even though Ukraine has the second largest refinery capacity in the CIS, with six crude oil refineries of about 53 million tons capacity potential per year, the utilization is still under 50 percent. Private shareholders of Ukrainian refineries are currently investing in upgrading the capacities to increase utilization.

Major U.S. companies selling to the local oil & gas market include: GE International (GE Power Controls, GE/Nuovo Pignone), Honeywell, Emerson Process Management – automation and control systems; Caterpillar, Baker Hughes (Baker Oil Tools, Hughes Christensen), FMC, Stewart & Stewenson, Smith Bits, Weatherford, Clearwater Inc. – equipment and technology for oil & gas production and stimulation, Exxon-Mobil, and Chevron-Texaco – motor oils and lubricants.

Best Products/Services

[Return to top](#)

The best products/services for the oil and gas sector include the following: technologies for gas production and storage, for gas-transport infrastructure, in particular pipeline construction equipment, compressors and pumps for pipeline applications; gas transmission systems; gas pipeline leak control systems; gas pipe fittings and applications;

Oil & gas pipeline welding machines, cranes, pipe-cleaning equipment, and line trend machines; monitoring and control systems for gas and oil pipelines;

Advanced and highly efficient oil and gas exploration and drilling equipment and technologies, particularly pontoons supported on columns, hoisting cranes, drilling rigs, bits, electric motors, winch rollers, rotary tables, sheds, hoisting blocks, monkey boards, crown blocks, gin holes, shackles, cutting, roller and diamond bits, casing sleeves, chemicals, stimulation technologies, modern 3-D seismic, drilling pumps (below 6,000 feet), drilling technology for offshore projects deeper than 200 feet underwater;

Equipment for atmospheric-vacuum oil refining; modernization and increasing of hydro-cracking and catalytic cracking capacities; units for catalytic transformation of distillates; industrial automation, control and monitoring systems for refineries, gas processing and petrochemical plants; desulfurization and quality control facilities; safety systems; fuel dispensers, fuel storage tanks, fuel level monitoring and accounting systems.

Opportunities

[Return to top](#)

The largest projects in the oil & gas sector include the following:

Refineries rehabilitation & upgrade

Ukratnafta/Kremenchuk, TNK/LINOS, Lukoil/Odesa and Alliance Group/Kherson refineries are undergoing capacity rehabilitation and upgrade projects in different stages. The major oil production company Ukrnafta is looking for partners to reconstruct and upgrade Kachanivsk Gas Refinery and build a new gas processing plant. The major gas production company, Ukgazdobycha, plans to upgrade its three gas processing plants.

Crude oil transit by pipeline

UkrTransNafta, Ukraine's oil transportation monopoly is looking for participants for the international consortium to operate the Odessa-Brody pipeline and Yuzhny oil terminal, to build the pipeline extension to Plock in Poland, and to pump Caspian crude to Central and Southern European markets.

Gas transit and distribution by pipeline

The major Ukrainian gas transit company, UkrTransGaz, is attracting foreign investors and equipment suppliers to rehabilitate and modernize the Ukrainian gas transportation system, including building co-generation units on gas compressor stations and increasing the efficiency of compressor stations. Russia, Germany and Ukraine are negotiating a gas transit consortium to rehabilitate and operate the main gas pipeline that goes through Ukraine and delivers nearly 40 percent of Europe's natural gas.

Coal Bed Methane (CBM) development

The major Ukrainian private industrial corporation, the Industrial Union of Donbas, is looking for large suppliers with project financing capabilities, for a CBM development project in the Donbas region of southeastern Ukraine. Ukraine possesses large reserves of coal bed methane.

Resources

[Return to top](#)

OPIC – risk coverage; U.S. Export-Import Bank - financing U.S. export transactions; U.S. Trade Development Agency (TDA) – funding project feasibility studies. EBRD has local representation in Ukraine and is looking for solid projects to finance. Local commercial banks, including international bank representations (CITI Bank, HVB, Raiffeisen).

Pollution Control Equipment (POL)

Overview

[Return to top](#)

Although significant, the pollution control equipment market in Ukraine cannot be calculated using traditional methods. The market size analysis is complicated by the lack of reliable statistical data.

Ukraine is seeking to prepare the ground for the new environmental policy that corresponds to the requirements of the "Environment for Europe" international process. To handle urgent pollution problems in Ukraine, a number of projects have been proposed. The most critical of these projects are waste treatment in the coal mining and construction industries. Other vital projects include the reconstruction and introduction of new technologies for the thermal power and oil refining industries, along with soil remediation and municipal wastewater treatment. However, most of the projects have been suspended or are only in a feasibility study stage.

Best Products/Services

[Return to top](#)

Ukraine has not yet developed a self-sufficient national infrastructure for waste management and disposal. The market for waste recycling equipment is in the development phase. A positive trend in increasing the proportion of recovered waste started in 2000 and was confirmed. Some 52 types of waste are now recovered or recycled, which account for about 60 percent of waste generation (2002 data). The most significant of these is the use of coal waste and steel slag as construction materials.

Virtually all municipal water treatment facilities and industrial pre-treatment systems need replacement and reconstruction. The majority of Ukrainian industrial enterprises are also in need of reconstruction and installation of new water and air pollution control systems. The production, installation and distribution of various pollution control systems are sorely needed.

Opportunities

[Return to top](#)

Significant strategic opportunities exist for U.S. companies in this emerging market, which should be studied on a case-by-case basis.

The most realistic prospects include:

- * Safety improvements at industrial and municipal plants;
- * Water conservation projects;
- * Improvement of filtration efficiency;
- * Environmental investments in the areas of high economic and tourist value.

Resources

[Return to top](#)

Ministry for Environmental Protection of Ukraine: <http://www.menr.gov.ua>

Security and Safety Equipmen (SEC)

Overview

[Return to top](#)

American-made security and safety equipment is one of the most promising industrial sectors for export to Ukraine. Because domestic manufacturers are unable to meet demand, both in terms of quantity and quality desired, U.S. exporters may find that the local market offers many opportunities, especially in the high-tech end of security products.

While existing legislation restricts the purchase and use of firearms by the average citizen, many citizens rely on a variety of security devices and alarms for their homes and cars, including car alarms, house alarms, advanced technology locks, and closed-circuit TV.

The rapid growth of private banks and corporations has been accompanied by an increased demand for security software, safety deposit boxes, safes, metal detectors, pagers, smoke detectors, and sophisticated turn-key security and access control systems. Ukrainian companies are often willing to pay top dollar for an effective security package, as seen by the proliferation of Ukrainian security companies. U.S. companies are advised to use trade exhibition opportunities to make valuable contacts and to contact private Ukrainian security firms directly. U.S. firms should also note that the importation of security and safety equipment requires certification and licensing from relevant Ukrainian government agencies, which is often a cumbersome process.

The local market also offers evidence of a growing demand for high-tech antiterrorist equipment, which is not manufactured locally. Customs, railroads, airlines, airports, state law enforcement agencies and private security companies show a growing interest toward advanced surveillance and access control systems.

The right choice of a local partner/distributor and close cooperation with the U.S. Commercial Service of the U.S. Embassy from the very beginning of the project development is advisable to guarantee a successful implementation of security related projects. U.S. exporters should also be aware that the exportation of some security items to Ukraine is subject to export licensing by the U.S. Department of Commerce (see www.export.gov).

Best Products/Services

[Return to top](#)

These include access control systems, equipment for detection of explosives and drugs, security software for corporate customers and banking, smoke detectors, and perimeter control systems.

Resources

[Return to top](#)

1. The State Security Service of Ukraine - <http://www.sbu.gov.ua/eng/>
2. The Ministry of Interior of Ukraine - http://www.kmu.gov.ua/control/en/publish/article?art_id=89480&cat_id=73007
3. BEZPEKA (Security). Leading Ukrainian annual trade show on safety and security. Directory of Participants - http://euroindex.ua/index.php?m=20&fs_cat=49

Telecommunications (TEL)

Overview

[Return to top](#)

Telecommunications and IT are important infrastructure sectors for Ukraine. The revival of the Ukrainian economy after 2000, as well as foreign and domestic investments in telecommunications made over the last 10 years, has brought marked changes in the Ukrainian telecom industry, particularly in mobile wireless and Internet. Obsolete analog networks are circumvented by a growing number of wireless mobile and fixed "overlay" networks. During January – October 2004, telecom industry revenues reached UAH 17.41 billion or \$3.28 billion (compared to \$2.54 for all of 2003). The average level of teledensity reached 24 percent. Revenues from long distance and international calls account for 28 percent of total services provided by the industry. Two leading wire-line operators Utel and Ukrtelecom process 95 percent of long distance and international calls. The local loop accounts for 13 percent of industry services. Private wire line telecom providers are slowly overcoming Ukrtelecom's monopoly, although their market share is still too small to trigger major changes that would reshape the market.

A lack of transparency and slow decision making in licensing and frequency allocation, continuing delays with privatization of Ukrtelecom, ongoing disputes between telecom authorities and private telecom operators seriously hurt the development of the whole telecom industry which is far behind the rest of the national economy in its movement toward liberalization, transparency and openness for foreign investments.

Mobile Communications

Five Ukrainian operators - UMC, Kyivstar GSM, Golden Telecom GSM, DCC, and Wellcom - offer wireless mobile services in Ukraine in the following standards: GSM900/1800 (UMC, Kyivstar GSM, Wellcom, Golden Telecom GSM), and D-AMPS (DCC). Late in 2003 the mass media announced that a major Turkish investor will form a joint venture with DCC to deploy a third nationwide GSM network. In the second half of 2004, JV Astelit started deploying the network. Wellcom was also actively expanding its existing network to cover new territories and regions.

In 2004 wireless mobile communications (MC) for the first time became the biggest sub sector of the telecom industry in Ukraine. From January – October 2004 MC revenues amounted to UAH 7.58 billion or \$1.43 billion, which is almost 100 percent more than for all of 2003 (UAH 3.83 billion or \$736 million). These revenues represent 43.59 percent of total telecom industry revenues. This successful financial performance for the first time ranks MC as the first communications sub sector in terms of revenue ahead of the long-distance and international wire line communications that historically led other industry sub sectors. The number of MC customers also doubled reaching 12 million (compared to 8-10 million customers of wire line telecom services). The market penetration for MC is 25.5 percent.

Internet & Data Transfer

Internet services are one of the leading, albeit small (in monetary terms), sub sectors of the Ukrainian telecom industry. Reportedly, there are 5.9 million Internet users and 28,800 web sites registered in Ukraine. Industry performance in 2004 was very strong and its revenues (for January-October only) reached UAH 749 million or \$141 million.

Best Products/Services

[Return to top](#)

This includes equipment and software for MC, value-added services for MC and wire line telecommunications.

Opportunities

[Return to top](#)

The privatization of Ukrtelecom is still on the agenda. This privatization may represent a great opportunity and when implemented will reshape the market. There also may be a major breakthrough in TV and radio broadcasting market development due to the expected liberalization of the market after major political changes in early 2005 and in view of forthcoming parliamentary elections scheduled for 2006.

Resources

[Return to top](#)

1. Official web site of the State Department for Communications and Informatization of the Ministry of Transport of Ukraine - <http://www.stc.gov.ua/>
2. Telecom Club (regular convention of telecom executives and equipment suppliers) - <http://www.telecom-club.org.ua/>
3. UMC - http://www.umc.ua/index_e.html
4. Kyiivstar - <http://www.kyivstar.net/site.php/en>
5. Golden Telecom - <http://www.goldentele.com>
6. Wellcom - <http://www.welcome2well.com/eng/main/index.htm>
7. DCC - <http://www.dcc-ua.com>
8. Ukrtelecom - <http://www.ukrtelecom.ua/>
9. Utel - <http://www.utel.com.ua/english>

Travel and Tourism (TRV)

Overview

[Return to top](#)

Ukraine represents a potential market for the U.S. travel industry with over 48 million residents and a gradually developing middle class. The Ukrainian economy has been steadily growing by 4 to 12 percent annually since 1999, allowing households (mainly urban) to spend more of their disposable income on travel. Foreign tourism in Ukraine had been growing by 4 to 13 percent since 1997. Of 14.8 million Ukrainians who traveled to other countries, only 2.3 million traveled for tourism. The Ukrainian Government certified over 3,700 private travel agencies with some 4,000 retail outlets. However only a handful of them highlight the U.S. as a tourism destination in their promotional catalogs.

The United States remains an unexplored destination for Ukrainian vacationers. Information about U.S. tourism attractions is only occasionally published in the Ukrainian travel press. Mass awareness of US attractions is based on US movies and magazines. American tourism products are practically not represented in Ukrainian travel and tourism shows. To the general public, spending a vacation in the United States is considered expensive. However, many Ukrainians spend thousands of dollars on holidays in such remote areas as Southeast Asia, Bali, Seychelles, South Africa and Kenya, etc. At present, U.S. destinations do not compete in the market. Expensive airfares and complicated visa procedures are believed to be the two main factors diverting Ukrainians to other vacation destinations.

Best Products/Services

[Return to top](#)

During 1998-2000 Ukrainian Government statistics reported a sharp growth in travel to the United States with a peak of 38,700 visits in 2000. In 2001, the total number of Ukrainian visits to the U.S. dropped to 31,000, shrank by another 23.5 percent in 2002 to 23,700, and fell to under 10,000 in 2003. Conversely, the Travel Industry Association (TIA) reports impressive growth in Ukrainian arrivals to the U.S. from 12,100 in 2002 to 15,100 in 2003. The increased number of visa applicants and visa issuances in U.S. Embassy Kyiv also supports this trend.

Ukraine also offers good trade and investment opportunities for companies involved in tourism infrastructure development. Ukraine's tourist accommodation facilities include nearly 1,300 hotels and more than 2,000 health resorts. However, the quality of service and the number of hotel amenities are well below the typical expectations of Western tourists. In addition, the prices are very high in relation to the quality of service offered. Kyiv is one of the few major world cities without international hotels. The Radisson SAS hotel development projects in Kyiv and Odessa are expected to be finished in early 2005. Marriott International has several projects in Kyiv at the inception stage. A delivery date for Hyatt St. Sophia in Kyiv has been postponed numerous times until May 2005. Hilton Hotels decided not to pursue projects in Ukraine at this stage after several unsuccessful attempts in Kyiv. Red tape and corruption on local levels, corporate non-transparency of local partners, unregulated land ownership, and lack of investment capital are the main deterrents in developing international hotels in Ukraine. Ukrainian

law prohibits ownership of land by foreigners, and therefore, all existing hotel projects must be developed on the basis of a land lease term of 49 or 99 years.

Opportunities

[Return to top](#)

U.S. companies that specialize in hotel and resort development, theme park development, winter sports facilities, tour development, concept design, convention business, construction and redevelopment of airports and marinas have the best opportunity to participate in the upgrade and expansion of Ukraine's tourism infrastructure. Despite an overall economic slump, tourism has become one of the key drivers of the Ukrainian economy, generating US\$4.2 billion in 2003. In Crimea alone, proceeds from tourism compose more than half of the Crimean Government budget.

U.S. tour operators interested in attracting Ukrainian visitors should actively promote themselves among the tourism companies and travel press in this market. Participation in the Ukrainian primary travel and tourism show UITT (first week in April) provides U.S. firms and organizations with the opportunity to promote their services and destinations in the market. Familiarization (FAM) trips to the U.S. (both press and trade) are other effective promotional tools that U.S. companies should use.

Resources

[Return to top](#)

Ukrainian State Tourism Administration: <http://www.tourism.gov.ua>

Main T&T Trade Shows:

1. UITT (Ukraine International Travel & Tourism), held annually during the first week in April: www.uitt-kiev.com
2. Ukraine Travel Market, held annually during the second week in October: <http://www.autoexpo.com.ua/eng/ukraine.html>
3. Crimea International Travel Fair, held annually during the first week in March in Yalta, Crimea: <http://fair.expo-yalta.com.ua/kkt05.htm>

Retail (RTL)

Overview

[Return to top](#)

The Ukrainian retail industry is one of the most promising sectors of the country's economy. Over the past five years, retail turnover (20.8 percent growth nationwide, and 27.8 percent in Kiev in 2004) surpassed Ukraine's GDP growth (12.3 percent in 2004). Forecasts indicate that this trend should continue for the foreseeable future. Retail trade benefits significantly from the growing income of Ukrainians, as well as from Ukraine's economic recovery of the past few years.

(Accurate Market Size Data is not available for this sector.)

Best Products/Services

[Return to top](#)

Currently, nationwide, the retail market is still dominated by small and medium-sized traditional stores, open-air markets, and kiosks. However, these venues, which symbolize the past, gradually surrender to large multi-functional shopping centers. Rapid development of contemporary retail outlets in large Ukrainian cities is an evidence of the country's economic progress. As of January 2005, over 40 percent of retail space (600,000 square meters) in Kiev was offered in large outlets. In 2003 only, retail space in Kiev increased by 58 percent from 75,000 to 118,500 square meters, and by a further 66.7 percent in 2004. There is an average of 100 square meters of new retail space per 1,000 Kiev residents. Kiev, though, is still well behind western European capital cities in terms of retail space per capita.

Experts estimate the market volume of large retail centers (based on the lease fees) from \$ 400 to \$ 600 million. Local and offshore developers continue to be the main market players in operating shopping centers in Ukraine. U.S. based NCH Capital Inc (New York, NY), Hungarian Transelectro, and Jordanian Universal Star Co. developed the first foreign owned retail outlets in Kiev. The return on investment (ROI) index for the large retail centers in Kiev varies from three to five years, which is one of the best in Eastern Europe.

A.T. Kearney, the management consulting company, ranked Ukraine in the top ten of its 2003 Global Retail Development Index among the top 30 emerging markets worldwide. With a notable exception of leading global retailers, Ukraine has become home to many international brands – from haute-couture designers to hundreds of local brands. However, the actual size of this fast-growing industry has been hidden by official statistics, partly because of the large proportions of black and gray segments of the local economy. Market experts believe the actual size of the retail market in Ukraine is between \$50 and \$75 billion.

In the supermarket segment Austrian BILLA, and Dutch SPAR pioneered the market in 2002, opening their first stores around the country. In 2004, both international chains diversified their network in central and eastern Ukraine. METRO stores opened in Kyiv in 2003 and currently are expanding to Dnipropetrovsk and Lviv. Russian-based retail chain Patterson announced its ambitious program to open up to 45 stores of different sizes in the next five years. Other foreign retailers reportedly exploring Ukraine are

Carrefour (France), VP Market (Lithuania), CBA (Hungary), Jeronimo Martins (Portugal), and Pyaterochka (Russia).

Ukrainian popular supermarket chains are Fozzy Group (Fozzy, Silpo, Fora), Garantia Trade (Fourchette), Kviza Trade (Velyka Kyshenia) and Megamarket with stores mainly in Kiev, and Dnipropetrovsk-based ATB Market, which is the largest in southern and eastern Ukraine.

Opportunities

[Return to top](#)

International commercial property management consultant Colliers International estimates that the demand for retail space will continue to exceed the supply for the next three years. Kiev may require another 250,000 square meters of retail space in 2005-06. It will take another 10 years to saturate the market with quality retail space.

The transitional period of dynamic growth in Ukraine's retail sector provides U.S. producers and suppliers with a unique opportunity to tap into a rapidly evolving market. Ukraine may offer good sales opportunities for U.S. manufacturers and suppliers of supermarket equipment (cash registers, conveyors, bar-coding machines, scanners, ATMs, security systems, refrigerators and freezers, etc.) Kiev, Dnipropetrovsk, Donetsk, Kharkiv, Odessa, and Lviv provide good sales opportunities for U.S. retail chain developers and equipment suppliers. It is important to develop reliable working relationships with trustworthy Ukrainian business partners. This requires research, thorough due diligence, and expert advice from reliable local sources.

Resources

[Return to top](#)

Ukrainian Association of Retail Centers: <http://www.ua-retail.com>

Real Estate Solutions: <http://www.retail.com.ua/>

Colliers International in Ukraine: <http://www.colliers.com/Markets/Ukraine/>

"MaRHo 2005" Prime Ukraine's Trade Show in the retail equipment category:
<http://marho.euroindex.ua/indexe.php3>

Ukraine is a country of vast agricultural potential boasting a population of about 47 million. In area, Ukraine is the second largest country in Europe after Russia. Nearly 97 percent of foodstuffs consumed in Ukraine are produced domestically. These products include meat, poultry and dairy products; macaroni, confectionery and bakery products, alcohol and non-alcoholic drinks, canned meat and vegetables. Domestic production and consumption of most food and agricultural products in Ukraine are currently about half of where they were during the last years of the Soviet era. Between 1990 and 2002 consumption of meat, dairy products and fruits contracted sharply with some recovery in 2003 and 2004. Total imports of agricultural products to Ukraine in 2003 reached \$ 2.17 billion (95 percent growth from 2002).

Since independence, the quantity and value of U.S. food and agricultural product exports to Ukraine has varied widely. Poultry meat, for both retail sale and further processing, has been the dominant U.S. export item throughout this period. Although there is substantial unmet demand among Ukrainian consumers, the official annual per capita income of \$1,020 severely limits the number of Ukrainian consumers who are able to expand food product choices. However, future prospects for increased consumption of imported agricultural products appear good because of Ukraine's economy. Following many years of sluggish economic performance, Ukraine's economy appears to have turned the corner, registering a GDP growth rate of 9.6 percent in 2001, 4.8 percent in 2002, 9.3 percent in 2003 and 12.0 percent (preliminary) in 2004.

The Foreign Agricultural Service in Kiev (FAS/Kiev) has identified ten (9) consumer-oriented best prospect items for export to Ukraine: poultry meat, pork, high-quality beef, seafood, pet food, wine, snack food, livestock genetics and seeds for planting.

POULTRY MEAT. The January 2002 – November 2003 ban on U.S. poultry meat severely damaged bilateral trade. Fortunately, removal of the ban coincided with a significant increase in demand, which allowed U.S. suppliers to once again capture the top supplier position. In 2004, poultry meat imports reached a record high exceeding 100,000 tons. During the 18-month ban, the domestic poultry industry benefited and increased production significantly. European and Brazilian poultry meat also gained significant market share during this period. The major barrier to trade remains Ukraine's high import duties on U.S. poultry products. Nearly all-legal U.S. poultry imports enter Ukraine through the Free Economic Zones (FEZ) or some other tariff-free mechanism. Many anticipate that these 'privileged' schemes may soon be eliminated resulting in the inability of importers to circumvent the exorbitantly high tariff rate. FAS Kiev expects continued strong demand for U.S. leg quarters and other poultry cuts in Ukraine since domestic producers are unable to meet the growing demand for these products.

PORK AND BEEF: Currently, there is no negotiated U.S.-Ukraine protocol for U.S. red meat exports despite significant shortages of red meat and skyrocketing prices in Ukraine. A prolonged meat crisis in Ukraine prompted the government to introduce export licensing in October 2004. The American Embassy in Kiev and U.S. Department of Agriculture (USDA) Washington continue to negotiate the reversal of the ban on U.S. red meat products. As with frozen poultry, high import duties, sanitary issues and trade that must be imported through the FEZs by privileged importers are the major barriers to

trade. When the ban is reversed, and if a reasonable tariff rate is applied, then premium quality U.S. beef and pork will supply Ukraine's hotel/restaurant/institutional (HRI) sector. Cheap cuts of U.S. beef and pork as well as mechanically de-boned meat will also be welcomed by Ukrainian companies in the meat processing business because, currently, these inputs are in short supply.

Please refer to USDA's Food Safety and Inspection Service Export Library at the following website for the latest information on exporting meat products to Ukraine:
<http://www.fsis.usda.gov/OFO/export/ukraine.htm>.

FROZEN SEAFOOD: As disposable incomes begin to rise, so too has the demand for high quality seafood. Yet, Ukraine's consumption of 495,000 tons of seafood in 2003 is only about half of consumption in 1990, leaving plenty of unmet demand. Growing interest in Alaskan pink and chum salmon as well as for whiting and Pacific sardines explains the almost 200 percent increase in the value of U.S. seafood product exports to Ukraine in 2004. The U.S. represents 4 percent of the import market and its share is growing very quickly. Despite significant seasonal market fluctuations and an underdeveloped cold storage chain, Ukraine's market looks very promising to U.S. companies. Throughout 2004, U.S. suppliers experienced problems with Ukrainian veterinary authorities. A variety of technical problems arose including the negotiation and implementation of a new import certificate and newly enforced shelf life regulations. FAS/Kiev managed to resolve these obstacles resulting in continued supplies in 2005 and beyond.

PET FOOD: Ukrainian pet owners are increasingly willing to purchase high-quality pet food rather than feed their pets table scraps. In 2004, U.S. pet food imports rose 30 percent in value. Pet food must be registered with the State Department of Veterinary Medicine of Ukraine prior to import. U.S. produced pet food competes mostly with German and French products in the upper market segment. The lower market segment is occupied by Russian products and emerging Ukrainian producers.

WINE: Despite numerous protective trade restrictions, wine imports into Ukraine are rising. While Ukrainian consumers have recently become acquainted with wines from the Americas, traditional wine suppliers from Moldova and Georgia continue to increase their market shares. A shift in consumer preferences towards dry wines coupled with rising incomes could benefit U.S. wines that are poised to occupy a niche market within the HRI and high-end retail sectors. Relatively high import tariffs on grape wines ranging from 2 to 3 Euros per liter plus a 20 percent value-added tax prevent U.S. wines from capturing a strong position in lower and middle market segments.

SNACK FOOD INCLUDING TREE NUTS, PEANUTS AND RAISINS. While western snack foods from Europe have made considerable inroads in Ukraine, very few U.S. products are seen on store shelves. Potato chips, popcorn, pretzels, cookies and crackers, salted nuts, and other snack foods are becoming increasingly popular, especially because young urban Ukrainians' discretionary incomes continue to increase. Potato chips and popcorn are identified as best U.S. product prospects since Ukrainian consumers associate these products as American. Dry fruits are quickly gaining popularity as a snack food and as an ingredient to dry breakfasts. Ukraine's expanding food processing sector demands increased quantities of food ingredients for new and innovative products. U.S. almonds and raisins are welcomed by confectioners but have

failed to become a popular snack food. The major barrier to importing processed food products are high tariffs, averaging about 30 percent.

LIVESTOCK GENETICS. Ukraine's livestock industry has suffered enormously over the 13-year period since independence. Herd numbers are about half of what they were during the Soviet era. A good opportunity exists to improve dairy and swine genetics. Concomitantly, large agricultural companies with profitable dairy or hog enterprises limit the market for livestock genetics. Though increasing, the number of such companies continues to be insignificant. In 2004, the United States established itself as one of the major commercial suppliers of dairy genetics despite complex veterinary issues with animal diseases. To date, supplying porcine genetics is prohibited because there is no negotiated protocol in place.

SEEDS FOR PLANTING

Despite rigid variety registration requirements, Ukraine's market for imported planting seeds increased from \$30 million in July 2002-June 2003 (marketing year 2002-2003) to \$56 million in July 2003-June 2004 (marketing year 2003-2004) and continues to provide promising opportunities for U.S. suppliers. The U.S. share of the import market increased from 5 percent in marketing year 2002/2003 to 9 percent in marketing year 2003-2004 with corn, sunflower seeds and sorghum seeds leading the way. There are also opportunities to supply high quality vegetable seeds; sweet corn and non-GMO soybean seeds because domestic supply is insufficient to meet demand for these types of seeds. Most seeds enjoy duty-free entry into Ukraine. To learn more about particular import requirements please contact the Foreign Agricultural Service Office in Ukraine at agkiev@usda.gov

[Return to table of contents](#)

[Return to table of contents](#)

Chapter 5: Trade Regulations and Standards

- [Import Tariffs](#)
- [Trade Barriers](#)
- [Import Requirements and Documentation](#)
- [U.S. Export Controls](#)
- [Temporary Entry](#)
- [Labeling and Marking Requirements](#)
- [Prohibited and Restricted Imports](#)
- [Customs Regulations and Contact Information](#)
- [Standards](#)
- [Trade Agreements](#)
- [Web Resources](#)

Import Tariffs

[Return to top](#)

As a rule, all imports are subject to payment of customs duty. The only exception applies to foreign investors who contribute qualified foreign investment to a Ukrainian resident company's authorized capital in exchange for the ownership rights in such company.

Import tariffs generally range from 2 percent to 50 percent, and combined with a high value-added tax (VAT, currently at 20 percent) and excise taxes these charges can act as a hindrance to U.S. exports to Ukraine. Import tariffs are particularly high with respect to petroleum products (5-40 EUR/ton) and distilled spirits (7.5 EUR/liter).

Excise taxes generally range from 5 percent to 300 percent. Excise rates vary, often in accordance to whether the imported good is produced in Ukraine. Five categories of imports were subject to discriminatory excise tax in 2004: alcohol, beer, tobacco, petroleum products, and automobiles. Excise duty rates are assessed as a percentage of the sum of the declared customs value, customs duties, and fees paid for importing products. Payment should be made in Ukrainian currency at the Ukrainian National Bank exchange rate effective on the day of payment.

Firms complain that the VAT system is poorly administered and some firms, particularly exporters, have reported that their VAT refund claims were not honored. Exempt goods include raw materials, component parts, equipment, machinery, and energy for production purposes and the enterprise's own needs. Zero VAT rates have been established for the following: sale of certain agricultural products by farmers until 2002; import of materials and equipment used for the development of the domestic ship-building until 2005; import of materials and equipment and exports of domestically produced spacecraft and equipment until 2009; import of materials and equipment used for the development of special chemicals and for the ammunition production industry (excluding excisable products) until 2010; imports of goods used for the development of the domestic car construction industry and exports of domestically produced or assembled cars and components (under the condition of making at least US\$150 million investment) until 2008; and the sale of recreation services in the Crimean resorts until

2005. As the list of goods exempted from VAT changes frequently, businesses should contact a local tax expert for the most up-to-date list.

In January 2000, border checkpoints began collecting a new uniform customs duty, combining seven import fees - customs clearance, sanitary, veterinary, phytosanitary, radiation, ecological control, as well as fees charged for the passage of vehicles on the motor roads of Ukraine - into a single tax. Ukraine employs a two-tiered system of general (full-rate) tariffs and preferential (partial-rate) tariffs. Imports from Western countries are usually assessed preferential tariffs, which vary according to the types of products imported. Import duties largely depend on whether a similar item to that being imported is produced in Ukraine, and if so, the rate tends to be higher. U.S. exports to Ukraine usually receive preferential customs rates if the following three criteria are met: (1) the company is registered in the United States; (2) the goods have a certificate to prove U.S. origin; and (3) the goods are imported directly from the United States. In 2000, exemptions from import duties, as well as the VAT, were created for certain import contracts for shipyard equipment through January 1, 2005, under a law giving state support to the shipbuilding sector. Effective February 19, 2001, duties on used foreign cars doubled for cars under five years old and tripled for cars more than five years old. Duties on new cars remained the same.

Trade Barriers

[Return to top](#)

Ukraine continues to maintain a number of barriers with respect to imports, including discriminatory fees and certification regimes. Non-tariff barriers include non-transparent standards, cumbersome procedures for phytosanitary certification, and import licenses. The government of Ukraine restricts imports of a number of U.S. agricultural products, allegedly for reasons of food safety. The Ukrainian Chief Veterinarian abruptly banned the importation of U.S. poultry and red meat, alleging that several U.S. production practices were not in accordance with a new interpretation of existing Ukrainian veterinary requirements. U.S. poultry sales were resumed in 2004. Imports of dried-egg products are restricted allegedly due to salmonella. In addition, bans on producers of biotechnology may cost American farmers \$ 2 million in lost sales of corn and soybeans.

Sales of U.S. non-agricultural goods and services, including agricultural and food processing equipment, electrical power equipment and oil and gas pumps, are generally not hampered by non-tariff barriers, and Ukrainian importers typically find ways to circumvent existing import restrictions, e.g. by importing through Special Economic Zones (SEZ's).

Import Requirements and Documentation

[Return to top](#)

Firms importing goods into Ukraine should expect to be confronted with the slow workings of the country's bureaucracy and a large volume of paperwork. Importers are required to complete a customs freight declaration for every item imported. Use of licensed customs brokers to navigate the often non-transparent and seemingly inconsistent customs regulations is recommended, as constantly changing regulations and, in many cases, the mood of the customs officer, can hinder the successful importation of a product.

The importer/freight forwarder should have all documents ready for presentation to the Ukrainian Customs authorities, including:

- The signed contract;
- Cargo customs declaration with the description and value of goods, term of payment (i.e., letter of credit, draft, cash, etc.) and terms of shipment. If payment is made by bank transfer, the name of the bank, address, and account number should be included;
- Certificate of origin of goods;
- Import license, if required;
- If importing weapons, ammunition, explosives, or poisonous substances, written permission is required from the Ministry of Internal Affairs;
- If importing electronic radio equipment and high-frequency devices, written permission is required from the State Telecommunications Committee;
- If importing drugs, medical preparations, and sources of ionizing radiation, written permission is required from the Ministry of Health.

On January 6, 2000, the Ukrainian Cabinet of Ministers passed a resolution regulating import licenses. Goods subject to import licensing include: agricultural chemicals, pharmaceutical products (except dental materials and sutures), veterinary medicines, cosmetics, hygiene products, matrix forms used in the manufacturing of audio production, and ozone-depleting chemical substances (including propellants for spray-paints and enamels, perfume, body lotions, etc., paint solvents, fire extinguishers and refills, oil sprays, air conditioners and refrigeration equipment, and refrigerated vending machines). In early 2001, the Cabinet of Ministers passed another resolution aimed at licensing the importation of industrial-grade polycarbonate, the main raw material used to produce optical media compact discs.

Most import licenses are granted through the Ministry of Economy. Import licenses for sporting weapons and self-defense articles are issued by the Ministry of Internal Affairs. Other import licenses are issued by:

- The Ministry of Agriculture, the State Chemical Commission (for agricultural chemicals) and the Ministry of Ecology (if such substances are supplied in sprays);
- the Ministry of Health (for pharmaceutical products, cosmetics, and hygiene products) and the Ministry of Ecology (if such substances are supplied in sprays);
- The Ministry of Agriculture, Department of Veterinary Medicine (for veterinary medicines);
- The Ministry of Education and Science (for matrix forms used in the manufacturing of audio production);
- The Ministry of Ecology (for ozone-depleting chemical substances including propellants for spray paints and enamels, perfume, body lotions, etc, paint solvents, fire extinguishers and refills, oil sprays, air conditioners and refrigeration equipment, and refrigerated vending machines).
- The Ministry of Economy and European Integration is responsible for import licensing of red meats and some products of animal origin (decisions are taken in agreement with the Ministry of Agricultural Policy of Ukraine according to the ruling introduced in November –December of 2004 and again for 2005).

This includes import Licensing of:

- Beef fresh and chilled (HS 0201)
- Beef frozen (HS 0202)
- Pork fresh, chilled or frozen (HS 0203)
- Poultry (HS 0207)
- Animal fats (HS 0209)
- Smoked salted and dried meats, meat meal (HS 0210)

According to the Law of Ukraine "On Seed and Planting Materials" wholesale trade in seeds (bunch of different HS Codes) is subject to licensing by the Ministry of Agricultural Policy.

A copy of the contract and the import certificate are basic documents necessary for obtaining an import license.

U.S. Export Controls

[Return to top](#)

The Department of Commerce, Bureau of Industry and Security (BIS) <http://www.bis.doc.gov> is the primary licensing agency for dual use exports (commercial items which could have military applications). [Other departments and agencies](#) have regulatory jurisdiction over certain types of exports and re-exports. For example, the State Department licenses the export of defense articles and services, while the Nuclear Regulatory Commission licenses certain nuclear materials and equipment.

Relatively few exports require an export license. Licenses are required in certain situations involving national security, foreign policy, short-supply, nuclear non-proliferation, missile technology, chemical and biological weapons, regional stability, crime control, or terrorist concerns. License requirements are dependent on an item's technical characteristics, the destination, the end-use, and the end-user, and other activities of the end-user. [Learn whether your exports need a license before you export.](#)

The first step in determining your license requirements is to classify your product by determining its [Export Control Classification Number \(ECCN\) on the Commerce Control List](#) (CCL). More is found in [information on Commodity Classifications](#). Check these lists to insure your products are not being illegally sold to denied persons or entities.

[Denied Persons List](#) - List of persons to whom export privileges are denied by written order of the Department of Commerce.

[Unverified List](#) - includes names and countries of foreign persons who in the past were parties to a transaction with respect to which BIS could not conduct a pre-license check ("PLC") or a post-shipment verification ("PSV") for reasons outside of the U.S. Government's control.

[Entity List](#) - These end users have been determined to present an unacceptable risk of diversion to developing weapons of mass destruction or the missiles used to deliver those weapons.

[Specially Designated Nationals List](#) - Alphabetical master list of Specially Designated Nationals and Blocked Persons

[Debarred List](#) - Defense Trade Controls List

More Information on Export Controls, Regulations and Licensing: [Bureau of Industry and Security \(BIS\)](#)

Temporary Entry

[Return to top](#)

Regulations pertaining to foreign companies and representative offices bringing in demonstration and exhibition the "Temporary Clause on the Regime for the Temporary Import of Goods, Property, and Transportation Means governs samples" issued by the State Customs Committee of Ukraine on December 30, 1991. These regulations classify imported items designated for demonstrations at exhibitions, fairs, and trade shows, as the temporary import of a foreign company's property, which is to be returned to that country afterwards. The temporary import of demonstration samples, excluding goods not allowed for importation, can be undertaken without registering the importer as a subject of foreign economic activity in Ukraine. This bypasses a burdensome bureaucratic process.

Temporarily imported goods can remain in Ukraine for one year from the date a customs declaration is submitted. If warranted, local customs authorities can extend this term for the duration of an economic, scientific, humanitarian, or other event in which the temporarily imported goods are required. The set term of temporarily imported goods should be reflected in the customs declaration. Samples may be shipped out of the country after usage via any customs point. Prior to their customs declaration expiration, temporarily imported goods should be:

- Returned outside the Ukrainian customs border;
- Declared at customs for further use;
- Passed to customs for storage in a bonded warehouse; or demolished under customs control if these items cannot be used as goods, products, or equipment.

The following documents are required for temporarily importing demonstration samples: a customs declaration, permission from the respective Ministry, if required, and other documents outlined in the customs declaration.

Prior to being returned, samples are inspected by customs authorities to ensure that the quantity and description of goods match those registered at the time of importation. The customs fee for temporarily imported goods is US\$30 for each customs declaration. When a large number of samples are imported, additional pages, costing US\$15 each, should be attached. Demonstration samples to be returned outside Ukraine are exempt from customs fees.

In 1997, Ukraine imposed additional limitations on the temporary entry of cars to Ukraine. Corporations and individuals may now bring only one car per company/individual into Ukraine, for a period of three years, exempt from customs fees.

Labeling and Marking Requirements

[Return to top](#)

Ukrainian commercial legislation does not impose general labeling requirements on imported goods, except food items. Effective January 1, 1997 all imported food products should carry labels in the Ukrainian language. The labels should include information about the manufacturer, product ingredients, and expiration dates for quality control purposes. In addition, some labels/markings have to be adhered to specific products, including labels for hazardous materials, labels indicating the contents and expiration date of foodstuffs, and markings indicating the voltage and frequency of electrical appliances. Detailed information on labeling requirements for particular products can be obtained from the relevant Ukrainian ministries and agencies.

Prohibited and Restricted Imports

[Return to top](#)

The Ukrainian Government strictly controls and restricts the import of weapons, narcotics, chemical and hazardous substances, certain pharmaceutical and communications related products.

U.S. companies wishing to import these goods should contact the relevant Ukrainian government ministry responsible for issuing licenses (for example, the Ministry of Internal Affairs licenses the importation of hunting rifles). For further information, please contact: U.S. Department of Commerce, Bureau of Industry and Security (BIS), 14th and Constitution Ave., N.W., Washington, DC 20230; Tel: (202) 482-0500.
<http://www.bis.doc.gov/>

Customs Contact Information

[Return to top](#)

A new Customs Code went into effect January 1, 2004, codifying uniform customs procedures for all goods, specifying elements of customs procedures, and creating a mechanism for submitting a preliminary declaration for customs clearance for those who declare items on a regular basis. The Code widens the powers of the State Customs Service of Ukraine (SCS), granting its staff free access to the companies' premises where commodities subject to customs clearing are stored. It gives the SCS the power to check foreign trade companies' financial and economic performance.

On July 1, 2001 the law "On the Customs Tariff of Ukraine" took effect under which only the Parliament (Rada) can introduce or change tariffs. The import tariff system of Ukraine has 21 sections, encompasses 97 groups of goods, and lists over 10,000 import duty rates. Import duty rates for most goods, except for farming goods, food and excisable goods, are established at levels accepted by GATT/WTO.

In September 2001 a law "On the Amendments to the Law of Ukraine 'On Unified Customs Tariff which is charged at the border checkpoints'" entered into force. Border checkpoints now collect uniform customs duties combining seven import fees - customs clearance, sanitary, veterinary, phytosanitary, radiation, ecological control, and a vehicle use fee - into a single tax. Non-residents entering Ukraine's territory by car are exempted from any payments.

State Customs Service of Ukraine
11 Degtyarivska St., Kyiv 04119 Ukraine
Tel: (044) 247-26-06, 274-27-06
Fax: (044) 236-82-81

E-mail: dmsu@customs.gov.ua
<http://www.customs.gov.ua/>

Standards

[Return to top](#)

- [Overview](#)
- [Standards Organizations](#)
- [Conformity Assessment](#)
- [Product Certification](#)
- [Accreditation](#)
- [Publication of Technical Regulations](#)
- [Labeling and Marking](#)

Overview

[Return to top](#)

Since 2001, the Ukrainian parliament has passed several new laws on standardization and certification to streamline the standardization process. Ukraine would like to harmonize its standardization and certification system with international norms, and plans to bring its standardization system into conformity with the European Standards System by 2011. As of January 31, 2004 Ukraine had 1,607 national standards harmonized with international and European ones and by 2011, it will have to implement 10,000 European standards or approximately 1,500 standards per year.

Imported products/goods are subject to sanitary, veterinary, radiological and ecological control. Ukraine's regulatory environment is in flux and foreign firms have found the production certification system procedures to be difficult. Ukraine's numerous certification bodies effectively operate as independent (often monopolistic) entities on a private profit basis. Many products require multiple certificates from multiple agencies at local and regional levels, requiring investors to provide additional documentation beyond that required by central agencies. The Government of Ukraine is in the process of bringing its sanitary phytosanitary (SPS) standards into conformance with WTO requirements.

Standards Organizations

[Return to top](#)

DerzhSpozhyvStandard (State Committee of Ukraine for technical regulation and consumer policy, <http://www.dssu.gov.ua/>) has created a network of 28 state centers of standardization, metrology and certification, 118 certifying bodies and testing laboratories (centers) throughout Ukraine. Each center is responsible for testing a particular item. Companies seeking testing should first contact DerzhSpozhyvStandard, because it makes the ultimate determination on certification.

Conformity Assessment

[Return to top](#)

Conformity Assessment is a mandatory step for the manufacturer in the process of complying with Ukrainian legislation. (Law of Ukraine On Conformity Assessment, http://www.welcometo.kiev.ua/ili/ilic.frame_law_result2.show?p_arg_names=law_id&p_arg_values=153) The purpose of conformity assessment is to ensure consistency of compliance during all stages of the production process to facilitate acceptance of the final product. The assessment procedure shall be obligatory in a legally regulated

sphere, and voluntary in a legally unregulated sphere. Ukrainian product legislation gives manufacturers choice with regard to conformity assessment, depending on the level of risk involved in the use of their product. These range from self-certification, type examination and production quality control system, to full quality assurance system. You can find conformity assessment bodies in this list <http://www.dssu.gov.ua/sertif/perelik.html>.

Product Certification

[Return to top](#)

A 1994 governmental decree imposed compulsory certification requirements for goods imported into Ukraine. The decree specifies a list of goods subject to certification and regulates certification procedures. Certificates may be one of two types: (a) Certificate of Acceptance of a foreign certification issued by the State Committee of Ukraine on Technical Regulation and Consumer Policy (as of October 1, 2002 – DerzhSpozhyvStandard instead of former Derzhstandart), and (b) Conformance Certificate issued by a Ukrainian agency upon certification of goods. This decree states that certificates issued by foreign certification authorities are to be recognized in Ukraine only to the extent provided in international treaties to which Ukraine is a party. Taking into account that there are currently no intergovernmental agreements on product certification between Ukraine and the U.S., a foreign certificate of acceptance will not be honored without first testing the product.

Product testing and certification generally relate to technical, safety, and environmental standards, as well as efficacy standards with regard to pharmaceutical and veterinary products. Such testing often requires official inspection of the company's production facility at company expense and is often done on a unit-by-unit basis rather than "type" testing. Where Ukrainian standards are not established, country of origin standards may prevail. Ukraine applies a range of sanitary and phytosanitary measures that are not consistent with a science-based approach to regulation. The certification and approval process can be lengthy, duplicative, and expensive.

To apply for certification, the following documents issued outside Ukraine confirming a product's conformity to specific requirements are to be submitted to the DerzhSpozhyvStandard:

- An application stating that the company wishes to certify imported products;
- A certificate of conformity;
- Standards (technical conditions) of production and the procedures for certification;
- A certificate of accreditation from the testing laboratory;
- A protocol/summary of test results;
- A certificate of quality control;
- A certificate of origin (manufacturing).

DerzhSpozhyvStandard has adopted as national standards the ISO-9000 series for production systems certification. Based on these standards, Ukrainian certification bodies can evaluate the quality of a production system rather than the quality of a single product. The procedure for issuing ISO certificates requires a visit from Ukrainian standards specialists to the importer's production facilities to inspect the system's quality. Adoption of the ISO-9000 series should facilitate the process of certifying goods as system quality certificates are issued for a three-year period. According to

DerzhSpozhyvStandard, the ISO9000 standard certificate doesn't prevent the importer from certifying individual products. However, with this certificate, only selective goods will be certified according to the procedures described above.

Accreditation

[Return to top](#)

On August 1, 2002 a National Accreditation Body was established to ensure the use of standards and procedures consistent with the European Cooperation for Accreditation policy. Ukraine also began separate regulation of accreditation and certification. Regulatory reform has also been introduced at the regional and municipal level. Further reform is still needed, as government employees are underpaid and the shadow economy continues to provide many opportunities for corruption.

Publication of Technical Regulations

[Return to top](#)

The Publication of Technical Regulations can be found at the official website of the State Committee of Ukraine for Technical Regulation and Consumer Policy:

<http://www.dssu.gov.ua/control/en/index>

Labeling and Marking

[Return to top](#)

Ukrainian commercial legislation does not impose general labeling requirements on imported goods, except food items. Effective January 1, 1997 all imported food products should carry labels in the Ukrainian language. The labels should include information about the manufacturer, product ingredients, and expiration dates for quality control purposes. In addition, some labels/markings have to be adhered to specific products, including labels for hazardous materials, labels indicating the contents and expiration date of foodstuffs, and markings indicating the voltage and frequency of electrical appliances. Detailed information on labeling requirements for particular products may be obtained from the relevant Ukrainian ministries and agencies.

Trade Agreements

[Return to top](#)

Ukraine signed free trade agreements with all of the former Soviet republics except Tajikistan. Ukraine's agreement with Russia began unraveling in mid-2001, however, when Russia introduced VAT on Ukrainian imports. Ukraine also has a Partnership and Co-operation Agreement with the European Union (PCA). Under the terms of the agreement, Ukraine enjoys most favored nation status with the EU, but is not required to bind its own tariffs. Ukraine is also a party to the 1995 CIS free trade agreement. This agreement has never been effectively implemented, however. Ukraine participates in the Black Sea Cooperation Council, along with Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, Macedonia and Turkey. It is envisaged that the organization be developed into a free trade area. Ukraine has, furthermore, concluded trade agreements with 12 countries (Austria, Argentina, Armenia, Bulgaria, Canada, Estonia, Finland, Krygzstan, Latvia, Moldova, Russia and Switzerland). These agreements grant on a reciprocal basis most favored nation status to export-import operations with the countries concerned. As in the case of the PCA, Ukraine benefits via these agreements from the tariff concessions made by its partner countries that are WTO members without binding its own tariffs. Ukraine intends to become a full member of the Central European Free Trade Agreement (CEFTA), which is predicated on Ukraine first becoming a member of the World Trade Organization. In

2003, Ukraine started negotiating with Russia, Belarus and Kazakhstan on creating a yet-to-be defined “common economic space.” Negotiations are ongoing with the outcome far from certain as of early 2005.

WTO membership has long been a proclaimed goal of Ukraine, and Ukraine has been engaged in the process of accession since 1993. Ukraine is still in the middle of the negotiation process. The U.S. Department of Commerce has assigned a resident advisor to assist Ukraine in developing economic trade laws in conformity with WTO requirements, and USAID expects to provide additional technical assistance in this area. Government officials have made various predictions about when Ukraine might actually become a WTO member. In early 2003, Ukraine's WTO Working Party agreed to start drafting the elements of an accession protocol. In order to accelerate accession, however, Ukraine will still need to adopt and credibly implement numerous WTO consistent laws and regulations. Some progress was made in 2003, particularly with regard to amending Ukraine's IPR regime to make it TRIPS compliant.

Web Resources

[Return to top](#)

Ministry of Economy of Ukraine: <http://www.me.gov.ua/>

State Customs Service of Ukraine: <http://www.customs.gov.ua/>

State Committee of Ukraine for technical regulation and consumer policy:
<http://www.dssu.gov.ua/control/en/index>

[Return to table of contents](#)

Chapter 6: Investment Climate

- [Openness to Foreign Investment](#)
- [Conversion and Transfer Policies](#)
- [Expropriation and Compensation](#)
- [Dispute Settlement](#)
- [Performance Requirements and Incentives](#)
- [Right to Private Ownership and Establishment](#)
- [Protection of Property Rights](#)
- [Transparency of Regulatory System](#)
- [Efficient Capital Markets and Portfolio Investment](#)
- [Political Violence](#)
- [Corruption](#)
- [Bilateral Investment Agreements](#)
- [OPIC and Other Investment Insurance Programs](#)
- [Labor](#)
- [Foreign-Trade Zones/Free Ports](#)
- [Foreign Direct Investment Statistics](#)
- [Web Resources](#)

Openness to Foreign Investment

[Return to top](#)

GOVERNMENT'S ATTITUDE TOWARDS FOREIGN INVESTMENT

Ukraine has not yet attracted the levels of foreign investment enjoyed by neighboring Central European countries. While macroeconomic successes and some economic reforms have improved the investment climate, issues of corruption, transparency, and rule of law have discouraged foreign investment. A new government is taking office in early February 2005 and is expected to make improving the investment climate a priority.

After eight years of decline following independence, the Ukrainian economy began growing in late 1999 and has been growing steadily since. Ukraine's GDP grew 9.4 percent in 2003 and 12 percent in 2004. Over the past few years, Ukraine has liberalized its markets, reduced regulation, eliminated most licensing requirements, eliminated most restrictions on foreign exchange and began the transformation of the agricultural sector from state-run farms to private agriculture. After years of hyperinflation and plummeting currency values, the national currency, the Hryvnia, has been stable against the U.S. dollar for over four years. Much remains to be done to achieve full economic liberalization. Ukraine's economy is still shackled by corruption, poorly developed rule of law, over-regulation and excessive government interference in what should be private business decisions.

Foreign investors express little confidence in the Ukrainian court system. Ukrainian courts tend to strike down or ignore contractual provisions for international arbitration or that assign legal responsibility for dispute resolution to a foreign court. Ukraine passed a

law on the enforcement of foreign court decisions, but it has not resulted in appreciable changes. The greatest number of investor complaints involves the State Tax Administration (STA) and selective enforcement of tax policy. Businesses say that STA uses its investigative authority to advance political or business interests.

MAJOR LAWS/RULES AFFECTING FOREIGN INVESTMENT

Ukraine's law "On Foreign Investment Regime" (1996) provides for equal treatment of foreign and Ukrainian-owned business with some restrictions in publishing and broadcasting. Foreigners are prohibited from participating in the manufacture of weapons or alcoholic spirits. In October 2004, the Rada Committee supported a draft law "On State Support and Stimulation of Investment," that streamlines procedures of registration and receiving permits by companies with foreign investment. The draft is to be voted by the Rada in 2005.

Both a new Civil Code and a competing and incompatible new Commercial Code went into effect on January 1, 2004. One year later, lawyers and judges are still grappling with how to implement the two conflicting laws. In 2004 many collisions between these two codes were reported. Much existing legislation is also not fully compliant with the codes. Several bodies say they plan to recommend that the new government repeal the Commercial Code.

PRIVATIZATION

A transparent privatization law provides for the cash sale of majority shareholdings in a number of strategic enterprises, open bidding procedures, and the use of financial advisers to assist Ukraine's State Property Fund (SPF). In practice, however, the privatization process is not very transparent. Privatization rules apply to foreign and domestic investors, and, in theory, a relatively level playing field exists. Foreign participation in privatization is limited for certain "strategic" enterprises (radio, television, energy, and insurance). Foreign shares of TV and radio broadcasting and publishing companies generally may not exceed 30 percent. The Rada may lift legislative restrictions on foreign ownership in specific instances and has done so on occasion.

Mass privatization of small- and medium-scale enterprises was completed in 1999. These enterprises, now in private hands, contribute significantly to economic growth. Lack of clear regulatory control limits the Government's ability to privatize attractive enterprises in several strategic sectors. Ukrainian, and sometimes Russian, business interests use the weak institutional setting to circumvent privatization rules. The year of Presidential elections - 2004, was marked by hasty privatizations of large enterprises, including a highly controversial privatization of Ukraine's largest steel mill Krivorizhstal, which clearly discriminated against foreign bidders. In January-November 2004, privatization receipts reached UAH 9.25 billion (USD 1.7 billion), higher than in any previous year.

PROCUREMENT

Ukraine is not a signatory to the WTO Agreement on Government Procurement but is negotiating WTO accession. A March 2000 government procurement law gives priority to Ukrainian bidders for the purchase of goods and services and provides a 10 percent differential to domestic bidders over foreigners in certain cases. Purchasing practices

vary and include open and closed tenders. To avoid abuses in highly concentrated areas of industry, the GOU relies primarily on open tenders. Personal contacts and politics, however, remain important. Investors complain about a lack of advance notice of rules and requirements for tenders, covert preferences in tender awards, awards made being subject to conditions not defined in initial tender announcements, partiality towards domestic investors and an inability to resolve grievances and disputes. A law on production sharing agreements, effective October 1999, provided a legal framework guaranteeing that the terms of agreements between foreign investors and the GOU for natural resources development could not be changed once an investment is made. Special tax provisions apply, but this key law is still not yet fully implemented.

ANTI-COMPETITIVE ACTIVITY

Unfair competitive practices have been a leading barrier to doing business in Ukraine. Problems arise from competitors in the shadow economy (who do not pay taxes fully, for example) and privileges given businesses favored by local authorities. Ukraine's anti-monopoly committee implements competition policy, and consumer protection legislation. The anti-monopoly committee recorded 2,792 violations of the anti-monopoly legislation during 11 months of 2004, which is about 16 percent more than for the same period in 2003. Similar to the previous years, the majority of the violations – 1,328, relate to the monopolists' misuse of their privileged position on the market. As a result of their unlawful activity violators have paid UAH 32,947 in penalties.

Conversion and Transfer Policies

[Return to top](#)

RESTRICTIONS ON CONVERTING/TRANSFERRING FUNDS

The April 1996 "Foreign Investment Law" guaranteed the "unhindered transfer" of profits, revenues, and other proceeds in foreign currency after taxes and other mandatory payments. However, according to the National Bank of Ukraine (NBU) Resolution 482 effective 12 November 2004, foreign investment funds may only be brought into Ukraine via special commercial bank accounts, which must convert the hard currency into Hryvnia. Foreign investments, therefore, may only be conducted in Hryvnia. Likewise, the resolution stipulated that all payments to foreign investors must be made in Hryvnia to the investors' bank accounts in Ukraine. The banks are free to convert the Hryvnia into hard currency so that the payments may be repatriated. Although the NBU claims that this controversial new resolution is merely a complication of previously existing regulations, bankers and businesspeople complain that it renders international transfers more burdensome and costly for investors. Ukraine's currency, the hryvnia, has floated freely since 2000. The hryvnia has been stable. As of January 2005, it traded against the U.S. dollar at approximately UAH 5.3 to the dollar, approximately the same level as last year.

FOREIGN CURRENCY EXCHANGE

While foreign investors may repatriate earnings, sale of proceeds in hard currency received by a purely Ukrainian company are subject to a 50 percent conversion requirement, and companies must obtain a license from the National Bank of Ukraine (NBU) for some operations. For hard currency being sent out of Ukraine, each transaction over \$50,000 has to be approved by the NBU, and the NBU charges a fee to

review the transaction. Foreign exchange is readily available at market-determined rates. Investors may convert their earnings into foreign currency through commercial banks, which purchase foreign currency on the inter-bank market. Commercial banks may trade foreign currency in electronic form with other banks or participate in electronic currency trading at the Ukrainian Inter-bank Currency Exchange (UICEX). In October 2004, the NBU limited bank exchange rates to a 2 percent deviation from the official NBU exchange rate. The range between purchase and sale exchange rates was limited to 10 percent

To purchase hard currency, companies must provide their banks with a copy of the foreign trade contract and, if a transaction exceeds USD \$10,000, get a permit from the State Tax Administration. Commercial banks must announce their clients' intentions to sell on UICEX if the transactions exceeded USD \$500,000. Investors must convert half of their foreign currency revenues to the national currency. The law "On the Circulation of Promissory Notes" provides an opportunity for payments in foreign currency and issuance and circulation of promissory notes, in accordance with the 1930 Geneva Convention "Providing a Uniform Law for Bills of Exchange and Promissory Notes." Residents may transfer up to USD \$300 abroad without opening a bank account. Illegal trade of hard currency is not a criminal matter but brings administrative penalties.

FOREIGN CURRENCY LOANS

Resident legal entities and entrepreneurs and foreign banks may receive foreign currency loans. The regulations address procedures for loans from non-residents, interest-free credits in foreign currency, and the application of sanctions for currency violations. Companies with no representation in Ukraine may not open deposit accounts with Ukrainian banks, but they may open accounts to conduct settlements.

Expropriation and Compensation

[Return to top](#)

Under the 1996 "Foreign Investment Law," a qualified foreign investor is provided guarantees against nationalization, except in cases of national emergencies, accidents, or epidemics. International institutions recommend that definitions of expropriation and nationalization in the foreign investment law and bilateral treaties be expanded to include indirect and creeping expropriation. Courts can determine whether owners of privatized enterprises failed to pay for an enterprise or to implement investment commitments in a privatization sale. Failure to pay or invest allows the GOU, with court permission, to revoke ownership and resell the property.

Dispute Settlement

[Return to top](#)

EXTENT AND NATURE OF INVESTMENT DISPUTES

The Embassy provides advocacy on behalf of U.S. investors. Frequently, investment disputes involve the lack of adequate rule of law, fair and impartial dispute resolution mechanisms, enforcement of domestic court and international arbitration decisions. Another problem is poor corporate governance (inadequate protection for shareholder rights, inadequate disclosure, asset-stripping, and voting fraud). Corruption lies at the heart of many investor disputes. Laws and regulations are vague, with considerable room for interpretation, providing officials at every bureaucratic layer ample opportunities

for corruption. Dispute settlement remains weak. Most U.S. businesses consider the local and national court systems unpredictable and try to avoid them. Commercial contracts may permit the parties to use international arbitration courts to settle disputes. Although Ukrainian legislation recognizes international arbitration decisions, in practice such decisions are difficult to enforce in Ukraine.

DESCRIPTION OF UKRAINE'S LEGAL SYSTEM

Ukraine has a civil law system relying on codes and acts. The court system has constitutional courts and courts of general jurisdiction. The general courts include courts designated by administrative level (rayon, oblast, and supreme) and by specialization. The courts of general jurisdiction review and settle civil, criminal, and administrative cases while specialized arbitration courts review business disputes, bankruptcy, and anti-monopoly cases. Despite their name, these are commercial courts, not for binding arbitration. The Supreme Court of Ukraine is the highest court in the general courts system. Ukraine's Constitutional Court interprets the Constitution and laws of Ukraine. The law "On the Judiciary", in force as of January 1, 2003 creates five levels of courts: local courts, courts of appeal, courts of cassation, higher specialized courts, and the Supreme Court, as well as an independent judicial department to manage the court system rather than the Ministry of Justice. Though the law increases the independence of the judiciary, in some cases it increases the powers of the President.

ENFORCEMENT OF RIGHTS

Investors criticize Ukraine's legal system for burdensome procedures, unpredictability, political interference, corruption, and inefficiency. Even when they obtain favorable decisions, investors claim they are often not enforced.

The "On Acknowledgment and Execution in Ukraine of Decisions of Foreign Courts" provides for execution of court decisions of those countries with which Ukraine has signed international treaties. The law covers foreign court decisions in civil, labor, and family cases; sentences in criminal cases in terms of reparation of damages to victims; and decisions of foreign arbitration courts. Laws "On the Order of Executing Decisions of the European Court for Human Rights" and "On Executive Implementation Procedures" show an encouraging trend toward conforming Ukraine's legal system to international norms.

CORPORATE GOVERNANCE

Ukrainian law offers scant protection for minority shareholders against insider dealing, asset stripping, profit skimming, and share dilution. In December 2002, the law "On Companies" was amended to obviate the rights of minority shareholders. Corporate finance is restricted and the lack of a company register breeds a lack of transparency. Some examples of shareholder rights abuses include limited disclosure, capital restructuring without shareholders' consent, and shareholder voting fraud. A "Joint Stock Company" law to remedy the pitfalls of the current law by introducing sound corporate practices that meet international standards has languished un-passed for six years. Interest now is growing in the business community in pushing through this needed reform.

BINDING INTERNATIONAL ARBITRATION

Ukraine enacted an International Commercial Arbitration Law in February 1994, which parallels commercial arbitration laws set forth by the United Nations Commission on International Trade Law. Ukraine is a member of the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitration Awards. Some investors have problems enforcing foreign arbitration awards in Ukraine. Foreign arbitral award enforcement procedures in Ukraine are regulated by a number of statutes and regulations, including the laws "On Commercial Arbitration" and "On Enforcement Proceedings."

ICSID MEMBERSHIP

In early 2000 Ukraine ratified the Washington Convention, providing for use of the International Center for Settlement of Investment Disputes (ICSID), an internationally recognized mechanism for resolving investment disputes between investors and the GOU. The U.S.-Ukraine Bilateral Investment Treaty (BIT), signed in November 1996, recognizes arbitration of investment disputes before the ICSID, but international arbitration under the BIT is a tool of last resort and impractical for everyday problems.

Performance Requirements and Incentives

[Return to top](#)

PERFORMANCE REQUIREMENTS

There are no known cases of performance requirements imposed on foreign investors other than those clearly spelled out in privatizations conducted via open tender.

INVESTMENT INCENTIVES

Foreign investors are exempt from customs duties for any in-kind contribution imported into Ukraine for the company's charter fund. Some restrictions apply and import duties must be paid if the enterprise sells, transfers, or otherwise disposes of the property.

Right to Private Ownership and Establishment

[Return to top](#)

The Constitution of Ukraine guarantees the right to private ownership, including the right to own land. Ukraine's law "On Ownership" recognizes private ownership and includes Ukrainian residents, foreign individuals, and foreign legal entities among those entities able to own property in Ukraine. It permits owners of property (including foreign investors and joint ventures) to use property for commercial purposes, to lease property, and to keep the revenues, profits and production derived from its use. The law "On Ownership" is not comprehensive and mechanisms for the transfer of ownership rights are weak. Some difficulties have arisen over foreign acquisition of majority control of enterprises, with the government or the current management continuing to exercise effective control of company decisions.

Protection of Property Rights

[Return to top](#)

On October 25, 2001 the Ukrainian Parliament passed a Land Code. The Land Code provides for private ownership of land but introduces a moratorium on trading in agricultural land until 2005. In December 2004, the Rada extended the moratorium on

land sales until January 1, 2008, by overriding the Presidential veto on the extension. Individuals cannot own more than a total of 100 hectares of agricultural land after the expiration of the moratorium in 2008 and before 2015. The Land Code has a 20-year moratorium on agricultural land sales to foreigners, though foreigners may own land plots on which company facilities have been built. Such restrictions may delay the development of a functioning land market, but the overall picture is not entirely negative. There is an active market in land leasing.

MORTGAGE

In late 2002 Ukraine adopted a law on "Withholding Land Shares in Kind". In June 2003, a law "On Mortgages" was adopted. Implementation of the law may take several years. USAID sponsors a land titling initiative aimed at providing technical assistance both to reduce the cost of agricultural land titling and to provide direct support for the issuance of land titles. Since passage of the decree, 3.3 million land titles out of a possible 6.7 million were issued by June 1, 2003. The World Bank assists Ukraine in developing the cadastre. Currently some mortgages are issued under a June 1999, Presidential decree permitting mortgages on land and buildings, both private and commercial. However, banks are reticent to provide financial backing for the purchase of real or personal property. While the use of mortgages in Ukraine remains limited by the scarcity of issued titles and limits on lending activity, apartments, houses, office buildings, other types of buildings, and dacha plots have secured mortgages.

USAID has been instrumental in the creation of a pledge registry, which applies to individuals' obligations with regard to movable property and tax liens. Though rudimentary, the registry is nationwide, providing a more transparent lending market for personal property.

IPR

Ukraine's protection of intellectual property rights (IPR) remains uneven. Ukraine is a member of the World Intellectual Property Organization and a signatory to a Number of international agreements and conventions, and has Passed a large number of laws aimed at strengthening the Protection of intellectual property. In 1999-2000, Ukraine was Europe's largest exporter of pirated CDs, and in 2001, the U.S. Trade Representative designated Ukraine a Priority Foreign Country under the Special 301 provisions of the U.S. Trade Act of 1974 and imposed 75-million-worth trade sanctions. USTR's most recent assessment in May 2004 concluded that Ukraine should remain a "Priority Foreign Country."

Ukraine has made progress in stopping the manufacture of illegal products, but it remains a major transit country for pirated material imported from Russia and shipped elsewhere to Europe. UkrainQs CD Licensing Law still needs to be amended to create a legal base for effective licensing and enforcement. Several attempts to amend the law in 2004 failed.

Trademark piracy is a common problem for domestic and foreign companies with well-known consumer brand names. Companies cannot expect law enforcement bodies to be pro-active in combating trademark piracy. Customs procedures for the registration of

goods containing intellectual property can be burdensome. In addition, state agencies have been known to resell seized products.

Despite these problems, support for needed changes is gradually growing within the government, the parliament and in society at large. The U.S. Government supports Ukraine's efforts to bring its legislation in line with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements for WTO membership. A law designed to bring all laws into compliance with the TRIPS requirements passed in spring 2003. U.S. IPR experts conclude that the bill fulfills the TRIPS requirements.

Transparency of Regulatory System

[Return to top](#)

TRANSPARENCY OF REGULATORY POLICIES

While there has been some deregulation, the number of regulations, required certificates, and inspection regimes in Ukraine impose a significant regulatory burden on private enterprise. The State Committee for Regulatory Policy and Entrepreneurial Activity (SCRPEA), according to Ukrainian legislation, is to review all proposed new laws, ministerial decrees, and regulations before they are adopted to determine possible impact on entrepreneurial activity.

The GOU has detailed procedural and methodological recommendations for preparing regulatory impact (cost-benefit) analyses for every newly proposed regulatory act; dissemination of proposed texts of all new regulations to interested parties, and an opportunity for public hearings and comment before adoption. USAID provides training to help with the implementation of the acts.

BUREAUCRATIC PROCEDURES

The GOU requires enterprises to obtain numerous permits to conduct business. Procedures are complex, unpredictable, burdensome, and duplicative creating confusion, increasing the cost and time to do business in Ukraine, providing opportunities for corruption, and driving business into the shadow economy. With initiative from local (municipal) governments and support from USAID, "One-stop Registration Shops" have been introduced in several cities. Some cities have begun to apply one-stop concepts to land use and other permits.

LICENSING

A Law "On Licensing Certain Types of Economic Activities" provides which activities are subject to licensing. Fees are high and compliance burdensome, particularly for telecommunications equipment. Licensing laws favor domestic producers and traders of ethyl, cognac, and fruit alcohol, spirits, and tobacco.

RULEMAKING

A Cabinet of Ministers resolution on Procedures for Adoption of Regulatory Acts, signed in July 2000, outlines procedures for approving draft regulations relating to entrepreneurial activity by SCRPEA.

INSPECTIONS

A 1998 Presidential Decree restricts entities' authority to conduct financial inspections to one planned inspection per year and requires a minimum of 10 days notice. Non-financial inspections continue to be used as a means of harassment and are major impediments to doing business in Ukraine.

CERTIFICATION/HEALTH AND SAFETY POLICIES

Technical standards and certification requirements are imposed on many imports. The certification body is the State Committee of Ukraine for Technical Regulation and Consumer Policy ("DerzhSpozhyvStandard"). Although Ukraine belongs to several international standardization bodies, such as the International Organization for Standardization (ISO), it generally fails to recognize foreign product certificates, even if issued in line with international standards, unless recognition is mandated through an international treaty signed by Ukraine. Procedures can be lengthy, burdensome, and expensive and standards are vague, inflexible, and subject to frequent changes. Numerous certification bodies operate independently without coordination or oversight. Local, regional, and municipal authorities often require additional documentation beyond that required by certification bodies. As of November 2004, DerzhSpozhyvStandard had a network of 107 accredited product certifying bodies and six accredited certifying bodies for quality management systems, as well as 780 testing laboratories throughout Ukraine. Appropriate resources, such as modern analytical equipment and reactants, are not available in most laboratories. Quality management systems are needed to ensure testing is done within an acceptable margin of error. DerzhSpozhyvStandard's system includes 28 state centers for standardization, systematizing weights and measures, certification and 27 territorial departments for consumer protection. Companies seeking testing should first contact DerzhSpozhyvStandard.

Importers can apply for three types of certificates: a certificate for a single batch of goods; a certificate for one year, which is valid for all imported goods during that year with one or two additional selective tests (this type of certification covers 70 percent of issued certificates); and a certificate for 5 years, which mandates inspection of production facilities.

Ukraine plans to bring its standardization system into conformity with the European Standards System by 2011, to meet the requirements for accession to the European Union. The law "On Assurance of Conformity" is replacing mandatory certification for many types of products with assessment procedures in conformance with international standards and the "New Approach" directives of the European Union, including the principle of "presumption of conformity to standards." On August 1, 2002, the National Accreditation Body started operations to ensure the use of standards and procedures consistent with the European Cooperation for Accreditation (ECA) policy.

Efficient Capital Markets and Portfolio Investment

[Return to top](#)

BANKING

The Ukrainian banking system consists of the National Bank of Ukraine (NBU) and commercial banks. The NBU is responsible for monetary circulation, registration of commercial banks, and oversight of their activities.

The banking sector plays a minor role in Ukraine's economy. Bank capital is less than 6 percent of GDP. Total bank assets are about UAH 140.3 billion, with total loan assets of UAH 91.8 billion. Money lending and deposits grew at a fast 33.9 percent and 32 percent respectively in January-November, 2004. Despite rapid growth, bank deposits account for 28 percent of GDP, putting Ukraine in the 'poor' category in the standard rankings of deposits. Interest rates declined from an average of 22 percent in 2003 to 17.9 percent in 2004 making credit more accessible. Most banks have a high cost structure and have high net interest margins versus low operating profits. There are 160 banks operating in Ukraine, but a handful of banks dominate the market. The top ten banks control 55 percent of loans outstanding and own 36 percent of the total capital of the system. With more active consumer lending, the share of loans exceeding one year increased to 46.2 percent of the total loan portfolio of the banking system, up from only 23 percent last year.

In January 2002, the law "On Banks and Banking Activity" eliminated discrimination against foreign banks. It entrusted the NBU with issuing banking licenses, and includes provisions to prevent money laundering. The NBU sets minimum capital requirements each year to be met by the banks by the year-end. Current minimum capital requirements range from UAH 7.6 million to UAH 36.6 million. It is expected that 21 Ukrainian banks will not be able to implement the minimum capital requirements in 2004 and will face NBU sanctions. Foreign licensed banks may carry out the same activities as domestic banks, and there is no ceiling on their participation. Foreign banks can operate via subsidiaries in Ukraine. The decision to allow foreign banks to operate via branch offices is pending before the Rada. In May 2002, most provisions of the law "On Systems of Payment and Money Transfer in Ukraine" came into effect, making payments more flexible and modern, including the use of electronic signatures. In July 2002, a law was passed that established legal principles for the provision of financial services and performance of regulatory and supervisory functions. Ukraine remains a cash economy, but use of plastic cards is rising.

INSURANCE

Only insurance companies registered in Ukraine may carry out insurance operations. There is a lower minimum capital requirement for domestic insurance companies than insurance companies with foreign shareholders. Foreign insurance companies can invest in local companies, but must establish a registered commercial presence such as a subsidiary to operate in Ukraine.

CAPITAL MARKETS

Legal, regulatory, and financial disclosure systems for the securities market lag behind international standards. Basic market infrastructure exists as does a regulator, but the legislative basis for capital market operations is weak. Rulings of the Securities and Stock Market Commission (SSMC) are advisory only and are not always followed by the courts. Investors face low market confidence, high macroeconomic risk, transitional accounting standards, a lack of accurate company information, and poor protection of minority shareholders' rights.

Ukrainian law allows for stocks (registered, bearer, preferred, and common), government securities, general obligation bonds, corporate bonds, savings certificates, promissory

notes, bond coupons, loan certificates, bank orders, savings accounts and privatization certificates.

According to the SSMC, there were 139 collective investment institutions, 863 securities traders, 131 custodians, 396 registrars, and 10 self-regulatory organizations (six of which are associations) in 2004. Eight stock exchanges were registered in Ukraine. A Ukrainian securities industry broker/dealer self-regulatory organization (SRO) and its nationwide electronic trading system (PFTS) is the largest marketplace with 76 percent of secondary onshore trading. Market capitalization was UAH 42.6 billion (USD \$8.04 billion) in early 2004.

Principal laws, decrees, and regulations governing financial markets include: "Law on Securities and Stock Exchanges" (1991), "Law on Business Associations" (1991) and amendments (1996), "Presidential Decree on Investment Funds and Investment Companies" (1994), "Law on State Regulation of Securities Markets" (1995), "Law on National Depository System" (1997), "Law on Accounting and Financial Reporting" (1999), "Bankruptcy Law" (1999) "Law on Collective Investment Institutions" (2001), and the "Law on Financial Services" (2001).

A law "On Collective Investment Institutions" encourages the creation of mutual funds, introduces the idea of a licensed asset manager, regulates the establishment and operation of subjects of mutual investment, provides guarantees of ownership rights to securities, and protects rights of exchange market participants. Ukrainian Law provides a framework for the circulation of promissory notes in accordance with the Geneva Convention of 1930.

BANKRUPTCY

A January 2000 bankruptcy law provides for debtor-led reorganization, a meaningful moratorium on payment and collection of pre-existing debt and tax forgiveness.

Political Violence

[Return to top](#)

Political demonstrations with some violence occurred early in 2001. The demonstrations were directly tied to the political scandals surrounding the Presidency. Subsequent demonstrations against the President in the fall of 2002 and March 2003 were peaceful. A fraudulent presidential runoff election in November 2004 brought about the "Orange Revolution" in November and December 2004. The country saw massive street demonstrations in Kiev and other cities. Protesters blocked government offices and buildings. Some companies went on strike in support of the opposition candidate but the strikes lasted just a few days. Disruptions in normal business activities were minimal. The demonstrations were peaceful. The likelihood of future widespread politically inspired violence that would affect foreign property interests remains relatively low.

Corruption

[Return to top](#)

Corruption pervades all levels of society and government and all spheres of economic activity in Ukraine. On Transparency International's Year 2004 Corruption Perception Index, Ukraine ranked 122nd on the list of the 145 countries. Russia ranked 90th. The incoming President has declared reducing corruption as a top priority.

Corruption stems from rampant conflicts of interest, a lack of institutional traditions of transparent decision-making and societal understanding of the importance of corporate governance and transparency. Low public sector salaries fuel corruption in local administrative bodies such as the highway police and tax administration as well as in the education system. Miniscule salaries in the medical system mean that the state guarantee of "free medical care" has been largely supplanted by a system of informal payments where patients are expected to make a "charitable donation" to receive treatment. High-level corruption ranges from misuse of government resources and money laundering to non-transparent privatization and procurement procedures. In short, corruption impacts the daily lives of Ukraine's citizens and important decisions taken at the state level.

Ukraine's prosecution of corruption is based on the law "On Combating Corruption", which was passed in October 1995. The law is rarely enforced, and then normally aimed at lower-or mid-level state employees.

Although government action is still limited, fundamental changes have taken place in the GOU's attitude towards corruption. Gone are the days when GOU officials refused to admit that corruption existed in Ukraine. Government and Rada officials now openly discuss the problem of corruption. President Kuchma established a coordination committee for combating corruption and organized crime composed of the State Security Service, Justice Ministry, Ministry of Internal Affairs, and State Customs Service. In April 2004 the Constitutional Court confirmed the status of the Committee as an advisory body, and cancelled its authority to draw regulatory acts. With financial support from the International Development Fund of the World Bank, the GOU will implement the Dialogue for Reforms project, aimed at increasing transparency of government activity and introducing mechanisms for public consultations. In February 2004, President Kuchma issued a resolution On Measures to Eliminate Conditions Favoring Corruption. The resolution focuses on repatriating shadow funds from foreign bank accounts and streamlining VAT refund procedures. Ukraine signed the UN Anticorruption Convention in December 2003 but has not yet ratified it.

RULE OF LAW

As discussed above, improvement of the ability of investors to protect their property and contractual rights is crucial to the investment climate. The judicial system needs to be reformed and made more independent. Enforcement of court decisions is also lacking.

Bilateral Investment Agreements

[Return to top](#)

The Bilateral Investment Treaty between the United States and Ukraine came into force on November 16, 1996. The following countries have also signed bilateral investment agreements with Ukraine: Austria (1996), Argentina (1995), Armenia (1994), Azerbaijan (1997), Belarus (1995), Bulgaria (1994), Canada (1994), Chile (1995), China (1992), Cuba (1995), Croatia (1997), the Czech Republic (1994), Denmark (1992), Egypt (1992), Estonia (1995), Finland (1992), France (1994), Georgia (1995), Germany (1993), Greece (1994), Indonesia (1996), Iran (1996), Israel (1995), Italy (1993), Hungary (1995), Kazakhstan (1994), Kyrgyzstan (1993), Latvia (1997), Lebanon (1996), Lithuania (1994), Macedonia (1998), Moldova (1995), Mongolia (1992), the Netherlands (1994), Poland (1993), Russia (1998), Slovakia (1994), Slovenia (1999), South Korea (1996),

Spain (1998), Sweden (1995), Switzerland (1995), Turkmenistan (1998), Turkey (1996), UK (1993), Uzbekistan (1993), Vietnam (1994), Yugoslavia (2001), Yemen (2002), Saudi Arabia (2003).

OPIC and Other Investment Insurance Programs

[Return to top](#)

STATUS OF OPIC OPERATIONS IN UKRAINE

The Overseas Private Investment Corporation (OPIC) in 2004 resumed financing and insurance for projects in Ukraine. The U.S.-Ukraine OPIC Agreement was signed in Washington on May 6, 1992. OPIC is currently in negotiation with the GOU to recover monies paid out to a U.S. claimant whose investment was expropriated.

EXPORT-IMPORT BANK

On July 20, 2002 the Board of the U.S. Export-Import bank opened up its facilities for short and medium-term (up to seven years) lending for commercial, and sub-sovereign projects.

MULTILATERAL INVESTMENT GUARANTEE AGENCY

The Multilateral Investment Guarantee Agency (MIGA) is an independent member of the World Bank Group, which provides guarantees against political risk to foreign investors in connection with new investment in developing member countries. Forms of investment that can be covered by MIGA include equity, loans, loan guarantees, and loans made by financial institutions (as long as MIGA is also insuring part of the foreign equity in the project enterprise). Certain non-equity direct investments may also be eligible such as technical and management contracts and franchising and licensing agreements.

Labor

[Return to top](#)

LABOR AVAILABILITY

Ukraine has a well-educated and skilled labor force with nearly a 100 percent literacy rate. The official (registered) unemployment level is low, 3.3 percent as of November 2004, but these figures are misleading. Most experts agree that reported unemployment is understated with the real unemployment rate more like 9.3 percent.

WAGES

Wages in Ukraine are very low by Western standards. In 2004 the nominal average monthly wage in Ukraine was UAH 462.27 and in October 2004 reached UAH 636.21 (\$120 roughly). The highest wages are in the financial and credit sectors while the lowest wages were paid to agricultural workers.

LABOR/MANAGEMENT RELATIONS

Ukrainian workers are generally accustomed to "top-down" management practices and therefore fail to demonstrate initiative. A younger, more independent-minded generation

is slowly moving into the workforce, and it is becoming easier to find personnel who function independently.

Although investors may encounter government resistance to trimming the work force to an efficient level, absolute demands to maintain employment levels are fading. Ukrainian enterprises still maintain much of the social infrastructure of their immediate community (schools for local children, cafeterias, and medical facilities). While many local officials are willing to work with businesses to identify social services that an enterprise must support, such arrangements should be clearly spelled out before investments are started.

MINIMUM WAGE

The minimum monthly wage was increased in 2004 to UAH 237. According to Ukrainian legislation, the minimum wage is adjusted whenever consumer price increases reach 5 percent. The GOU announced that by 2007 the minimum wage in the country would reach the subsistence level, which was increased to UAH 423 per month in January 2005.

PAYROLL TAXES

Payroll taxes (both employee-paid and employer-paid) total over 40 percent as follows:

TYPE OF PAYROLL TAX	PAYER/PERCENTAGE	CAP
Pension Fund	Employer 32.0%	UAH 1,000
Pension Fund	Employee 2.0%	UAH 1,000
Temporary Disability Fund	Employer 2.9%	UAH 1,000
Temporary Disability Fund	Employee 0.5%	UAH 1,000
Unemployment Fund	Employer 2.1%	UAH 1,000
UNEMPLOYMENT FUND	Employee 0.5%	UAH 1,000

The Temporary Disability Fund and Unemployment Fund form part of the Social Security Fund.

Foreign-Trade Zones/Free Ports

[Return to top](#)

As of December 2004, there were 11 Special Economic Zones (SEZ) and 11 priority development Areas (PDA), offering tax and import duty exemptions and other benefits to encourage investment and production of goods for export. They differ by tax concessions granted. FEZs mandate privileges for 10 to 30 years (depending on the investment). Priority Development Territories (PDT) do not have independent customs borders. There is a moratorium on creation of new SEZs, which was again violated by creation of new zones, two of which were created in November 2003. The IMF and World Bank suggested that the zones be eliminated and advised the government to focus instead on improving the overall investment climate in the country. The GOU did cancel some previously granted privileges, but formidable regional political interests are likely to prevent closure of FEZs.

FREE PORTS

Porto-Franco in Odessa has the status of a free port. In total, Ukraine has 20 seaports and 10 river ports located on the Black Sea, the Sea of Azov, and the Danube, Yuzhniy Bug and the Dnieper rivers. They are currently under the authority of the Ministry of Transportation's Department of Sea and River Transport. All seaports are state-owned with the exception of a small port that belongs to the Mykolayiv Alumina Plant. All river ports are open or closed joint stock companies.

Foreign Direct Investment Statistics

[Return to top](#)

FOREIGN DIRECT INVESTMENT

According to the State Statistical Committee, in 2004 foreign investment in Ukraine grew by 22 percent. As of January 1, 2004, FDI in Ukraine accounted for USD 6.658 billion or USD 140 per capita, one of the lowest levels of FDI in the CIS. Annual FDI in Ukraine's neighbor, Poland, was nearly 10 times as high. Over nine months of 2004, foreign direct investment grew by over USD 1 billion to USD 7.76 billion as of December 1, 2004 or USD 162 per capita. USD 1.32 billion in foreign investment entered Ukraine while USD 277 million were withdrawn.

FDI BY COUNTRY

In all, 117 countries invested in Ukraine. As of December 1, 2004 Ukraine's major investors include: Cyprus (14.1%), the United States (13.6%), the United Kingdom (10.4%), Germany (7.1%), the Netherlands (6.8%), Virgin Islands (6.1%), Russia (5.5%), Switzerland (4.9%), Austria (4%).

FDI BY INDUSTRY SECTOR DESTINATION

Over 9 months of 2004, 16 percent of FDI went to domestic trade, 14.6 percent - to food processing, 8.4 percent - to machine building and the finance sector, 7.3 percent - to the transportation and communications industry.

Q. Tax Issues of Interest to Major U.S. Investors:

TAX TREATIES

The "U.S.-Ukraine Tax Treaty" went into force June 5, 2000. Every year, the GOU updates a list of offshore jurisdictions to establish restrictions on the deductibility of payments by resident companies to nonresident entities "located" in offshore jurisdictions. In such cases, only 85 percent of the amount paid may be deducted or capitalized.

In May 2001, the Cabinet of Ministers approved a resolution "On Approval of the Procedure for Exemption of Incomes Generated in Ukraine from Taxation (Tax Deductions) in Compliance with Ukraine's International Agreements on Prevention of Double Taxation." The order exempts from taxation profits of non-Ukrainians who pay taxes on repatriated profits and whose home nations have signed bilateral agreements with Ukraine against double taxation if they submit a document verifying that they reside in a country with which Ukraine has a double-taxation agreement. Without such a document, non-residents' profits of Ukrainian origin are subject to taxation. If a non-resident believes that a tax was exacted on profits exceeding the amount due under an

international double taxation agreement, he or she may file a repayment claim with tax authorities from the state where the entity that generated the income is registered.

TAX POLICIES

The most frequent complaints from businesses in Ukraine involve tax administration. One key issue is the administration of refunds to exporters for VAT that has been collected. There is a large backlog of refunds that must be repaid and the GOU is discussing the issue with the IMF. There has been discrimination against foreign companies in the use of promissory notes to cover VAT for temporary imports. In addition to confusing regulations and a heavy tax burden, investors complain of harassment by tax officials, discriminatory application, and disproportionate penalties. On December 24, 2002 the Rada voted to reform the "Enterprise Profits Tax," cutting the corporate tax rate from 30 percent to 25 percent and liberalizing provisions for loss carryovers. On May 22, 2004 Ukraine introduced a flat rate of 13 percent on personal income. Budgetary effects of the tax cuts are still being calculated.

Web Resources

[Return to top](#)

(Insert text here)

[Return to table of contents](#)

[Return to table of contents](#)

Chapter 7: Trade and Project Financing

- [How Do I Get Paid \(Methods of Payment\)?](#)
- [How Does the Banking System Operate?](#)
- [Foreign-Exchange Controls](#)
- [U.S. Banks and Local Correspondent Banks](#)
- [Project Financing](#)
- [Web Resources](#)

How Do I Get Paid (Methods of Payment) ?

[Return to top](#)

Ukraine's payment system is reliable. All domestic payments – irrespective of the amount - are carried out fully electronically through the clearing center and the 42 branches of the NBU. The average time for payment transfer is between ten minutes and two hours. The transfer of payment orders in foreign currencies is made either through a cover at the foreign partner-bank, or through the NBU's international settlements department. Banking was the first sector in Ukraine to convert to International Accounting Standards (IAS).

Ukraine has adhered to a number of international legal instruments pertaining to international payments via checks, bills of exchange, letters of credit, and collection arrangements. The safest method of receiving payment for U.S. exports is through an irrevocable letter of credit (L/C). To carry out hard currency transactions, a bank has to be authorized by the NBU. Authorized Ukrainian commercial banks are members of SWIFT (Society for Worldwide Inter-bank Financial Telecommunications).

How Does the Banking System Operate?

[Return to top](#)

The Ukrainian banking system consists of the central bank - the National Bank of Ukraine (NBU), and commercial banks of various classifications. The NBU is responsible for monetary circulation, registration of commercial banks and oversight of their activities, and sometimes intervenes in the currency market to moderate changes in the exchange rate. As of July 1, 2004, 179 banks were registered in Ukraine, including 19 with foreign capital backing (7 of them with 100 percent foreign capital). Overall the Ukrainian banking sector remains small in size with total assets in the system of less than USD \$20 billion and low ratios of total bank capital to GDP (< 5 %) and average bank deposits of approximately 20 percent of GDP.

Foreign-Exchange Controls

[Return to top](#)

The foreign exchange rate policy of the National Bank of Ukraine ensures stability of the rate of hryvnia versus the US dollar. In 2004 the average annual exchange rate of the hryvnia vis-à-vis the US dollar was at a level of UAH 5.38 for one US dollar. While foreign investors may repatriate earnings, sale proceeds in hard currency received by a purely Ukrainian company are subject to a 50 percent conversion requirement, and companies must obtain a license from the National Bank of Ukraine (NBU) for some

operations. For hard currency being sent out of Ukraine, each transaction over \$50,000 has to be approved by the NBU, and the NBU charges a fee to review the transaction. In 2003 the National Bank of Ukraine took some steps regarding foreign exchange market liberalization for foreign enterprises and private persons to conduct foreign exchange transactions. At the same time, a number of measures were taken in order to prevent the exit of illicit foreign exchange.

According to the National Bank of Ukraine, modifications to the Currency Regulations (effective January 14, 2003), banks and companies in Ukraine can enter into forwards (including forward-outright and currency swaps) and do it freely within the "NBU 1 classifier" currencies (the USD, the EUR, the GBP). Those forwards or currency swaps can be entered into for hedging purposes. Even if the contract or the invoices are labelled in one of the "NBU 1 classifier" currencies, companies are free to settle their purchases abroad or to receive proceeds from abroad in another currency of the "NBU 1 classifier". This is also applicable to cross border loans.

Purchasing currencies in order to pay promissory notes/bills of exchange (drafts) in favour of non-residents under import contracts became possible. Bills of exchange can be accepted for import of goods and services by Ukrainian residents and paid at maturity, if the relevant contracts and delivery evidences (customs declarations, acts of acceptance) are provided.

U.S. Banks and Local Correspondent Banks

[Return to top](#)

Ukraine has one of the most liberal sets of regulations for foreign bank participation in the CIS. Foreigners are permitted to fully participate in the domestic banking sector, although they must establish a resident office one year before applying for a banking license. The minimum authorized statutory fund is EURO 10 million, a small sum by international standards. Despite these facts, foreign banks are not very active in Ukraine yet, in comparison to other eastern European countries. Since 1997 the US Citibank has a full subsidiary in Ukraine. This is the only US bank operating in Ukraine with an office.

Among the US banks that have correspondent relations with Ukrainian banks are: American Express Bank, Bankers Trust Company New York, Citibank N.A., the Chase Manhattan Bank, Republic National Bank of New York and the Bank of New York. These banks have correspondent relations with the National Bank of Ukraine and all major Ukrainian banks.

Project Financing

[Return to top](#)

Financing available in Ukraine is mostly short-term. For a five year term and longer, resources in hard currencies are provided by International Financial Institutions like the EBRD, World Bank or the IFC.

The **European Bank for Reconstruction and Development (EBRD)**: In Ukraine EBRD is active in its support to the financial sector, small and medium businesses, food production and processing enterprises, municipal and state infrastructure and transport. Special emphasis is put on energy sector reform and the introduction of energy efficient

technologies in Ukraine. The Bank is also using its unique experience in the nuclear sector to improve nuclear safety both at Chernobyl and countrywide.

The **World Bank**: Since 1992, partnership activities between Ukraine and the World Bank have resulted in joint projects that are improving the public and private sectors, raising performance in agriculture and energy, protecting the environment and bolstering the social sector. Today, the Government and the World Bank co-operate on about forty activities, including loans, grants, and economic research.

The **International Finance Corporation (IFC)** is a member of the World Bank Group. IFC investment activity in Ukraine is focused on the financial sector. Technical assistance operations are provided in privatization, small/medium-sized enterprises (SME) and capital market development.

The **U.S. Trade and Development Agency (TDA)**: TDA's assistance to Ukraine has focused on the funding of feasibility studies, particularly those that create long-term cooperative relationships between U.S. firms and their Ukrainian counterparts.

The **Western NIS Enterprise Fund**, capitalized with US\$150 million by the U.S. Government is fully operational in Ukraine, Belarus, and Moldova since June 1995. The Fund provides equity capital and loans in amounts between US\$500,000 and US\$5 million to small and medium-sized private companies involved in food processing, distribution, construction materials, and other light manufacturing industries. The Small Business Loan Fund, a separate fund managed by Western NIS, makes commercial loans under US\$100,000 to small businesses and entrepreneurs. Western NIS has a \$30 million loan from OPIC to establish a new Ukrainian mortgage bank. The International Mortgage Bank is the first bank that specializes in providing residential mortgage loans in Ukraine. The bank is wholly owned by the Fund and will provide 10-year loans at annual rates of between 13 percent and 15.5 percent.

ProCredit Bank Ukraine, which is co-owned by the **Western NIS Enterprise Fund**, Received a \$10 million loan from OPIC to enable it to provide approximately 10,000 additional loans over the next five years to small and medium-sized businesses.

The **Eurasia Foundation**, a privately managed grant-making organization established with financing from USAID, supports technical assistance, training, education, and policy programs. The Foundation's Kiev Regional Office to date has distributed over US\$24 million to several hundred organizations in Ukraine, Moldova, and Belarus. Grant funds are awarded to help organizations build capacity, conduct research and achieve positive, long-lasting results in three broad areas: private enterprise development, public administration and policy, and civil society. The Small Business Loan Program (SBLP) is the only lending program operating in Ukraine that offers medium-term financing for businesses requiring less than US\$100,000. It currently operates in partnership with two local commercial banks, VABank and AGIO, to provide medium-term loans to small businesses employing up to 100 people.

Web Resources

[Return to top](#)

Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

European bank for reconstruction and Development:
<http://www.ebrd.com/country/country/ukraine>

The World Bank: <http://www.worldbank.org.ua>

The National Bank of Ukraine: <http://www.bank.gov.ua>

[Return to table of contents](#)

Chapter 8: Business Travel

- [Business Customs](#)
- [Travel Advisory](#)
- [Visa Requirements](#)
- [Telecommunications](#)
- [Transportation](#)
- [Language](#)
- [Health](#)
- [Local Time, Business Hours and Holidays](#)
- [Temporary Entry of Materials and Personal Belongings](#)
- [Web Resources](#)

Business Customs

[Return to top](#)

Given the fact that "business" in a Western sense is something new to the current generation of Ukrainians, it is difficult to generalize about proper protocol and customs for doing business in Ukraine. The legacy of centralized authority extending back for centuries, bureaucracy, red tape, and an unwillingness to take initiative have been imprinted on the Ukrainian business psyche. Signatures, proper letterhead, stamps of authenticity, and forms (in triplicate) are very important to "getting the job done" in Ukraine - a process which can exercise the patience of even the most experienced international businessperson. For example, a letter authorizing Mr. X to do Y will sometimes be rejected because it does not have "the proper stamp." Foreign companies will often stamp a document in English with an "official" seal, show the stamp to a customs officer or other bureaucrat (who likely cannot read English anyway), finding that this strategy is often successful.

Due to the general lack of knowledge about international business practices and terminology exhibited by most Ukrainians, it is important to take an educational role in business negotiations. Ukrainians can be shrewd and tough negotiators. It is important to be very responsive to one's negotiating partner, even regarding seemingly mindless issues. Visits to factories or other places of business activity in the U.S. can literally be the "picture worth a thousand words," as not that many Ukrainians have been to the U.S.

The form of business in Ukraine often takes precedence over the substance, making a U.S. partner's approach all the more important. As noted above, given the absence of a strong, transparent legal infrastructure, in the end your deal may depend on the trust you have painstakingly built over many months or years.

Because Ukrainians are deeply personal, an extraordinary emphasis is placed on cementing personal relationships before doing business. Face-to-face meetings are the norm, with little business conducted over the phone. Business cards, printed in English and Ukrainian or Russian, are "de rigueur," with a firm handshake to open and close a meeting. Long evenings of vodka toasts (moderation is advised) and

several-course meals are important in building trust with your Ukrainian partner. Wishing good health, happiness, and success for your partner's immediate family will be certain to bring a smile and a hearty "thank you." Remembering your Ukrainian partner's birthday, child's birthday, and keeping Ukrainian holidays in mind will also be gestures not soon forgotten.

Travel Advisory

[Return to top](#)

Please review the Consular Information Sheet available on the U.S. Department of State's Bureau of Consular affairs web site:

http://travel.state.gov/travel/cis_pa_tw/cis/cis_1053.html.

Tourist Information including money, communication, etiquette, shopping, airports etc. is available on the web site of the Embassy of Ukraine in Washington D.C.-

<http://www.ukraineinfo.us/travel/tourism.html>

Visa Requirements

[Return to top](#)

All American citizens must obtain a visa before traveling to Ukraine. A visa is also necessary if you are just transiting Ukraine. In addition, a U.S. passport valid for six months beyond the planned date of travel is required. A visa may be obtained from the Consular Office of the Embassy of Ukraine in Washington, D.C., or from the Ukrainian Consulates General in New York, San Francisco and Chicago. If you are outside of the United States, you can obtain a visa from a Ukrainian diplomatic representation abroad.

Embassy of Ukraine in Washington D.C. - <http://www.ukraineinfo.us>

Consulate General of Ukraine in New York - <http://www.ukrconsul.org>

Consulate General of Ukraine in San Francisco - <http://www.ukrinesf.com>

Consulate General of Ukraine in Chicago - <http://www.ukrchicago.com>

The Government of Ukraine does not issue visas at the point of entry into Ukraine. All visitors without a valid entry visa who arrive at an international airport in Ukraine, or any other point of entry, are denied entry. They are turned back, and must return to their point of departure or travel to a third country to obtain a visa from a Ukrainian embassy or consulate. Such travelers incur additional costs and serious disruptions to their travel plans.

No invitation letter is necessary for EU, Canadian and U.S. citizens for business, official, science, cultural/sporting, private, and tourist visas. However, in order to receive a tourist visa, you have to submit documents confirming the tourist nature of your trip.

Information on entry requirements to Ukraine for American Citizens is available on the U.S. Embassy's web site:

http://www.usemb.kiev.ua/amcit_travel_ukrentry_eng.html

For more details please visit the U.S. Department of State's Bureau of Consular affairs web site: http://travel.state.gov/travel/cis_pa_tw/cis/cis_1053.html.

U.S. Companies that require travel of foreign businesspersons to the United States should allow sufficient time for visa issuance if required. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas.gov: <http://www.unitedstatesvisas.gov/>

(Insert here the web address for the consular section of the local embassy website.)

Telecommunications

[Return to top](#)

For telephone service information please visit the web site of the Embassy of Ukraine in Washington D.C.:

http://www.usemb.kiev.ua/amcit_misc_telephone_eng.html

Communication information including phone codes of Ukrainian regions is available on the web site of the Embassy of Ukraine in Washington D.C.:

<http://www.ukraineinfo.us/travel/tourism.html#5>

Please see Chapter 4: Leading Sectors for U.S. Export and Investment - Telecommunications

Transportation

[Return to top](#)

City transport in Kyiv is cheap, but crowded and slow at times. The Metro (subway/local train) is probably the quickest public transport method. Metro tokens can be purchased at individual stations; monthly passes at transportation kiosks. However, hailing a cab is probably the most efficient form of transportation within the city. Private cars can also be hired for a reasonable price, but most drivers do not speak English. Be sure to agree on a price beforehand. It is becoming customary to order a taxi by phone. The most reliable and comfortable taxis can be ordered by dialing: 0-58, 234-4444, 574-0574, 238-8238. Rent-a-car service. International trademarks Avis (Tel: 490-7333), Hertz (Tel: 494-4935/4936), and Europcar (Tel: 238-2691) run their operations in Kyiv and Boryspil Airport.

Train travel is the least expensive and most convenient method to reach just about any location in Ukraine. Trains are slow, but generally safe.

Air travel within Ukraine is often unreliable, with unpredictable schedules and service not on par with Western standards. Ukrainian domestic carriers operate Antonov-24 or Yakovlev-40 type aircraft, most of which have been in use for over 20 years. Due to very old air navigation equipment being operated by the Ukrainian air traffic service, domestic flights are subject to prolonged delays, especially during bad weather. Direct air service between Ukrainian cities, other than from Kyiv, is unavailable.

Almost all international flights to Kyiv arrive at Boryspil International Airport (<http://www.airport-borispil.com.ua>), located 30 kilometers from the city center. The departure and arrival lounge features a Duty-Free shop and Irish bar. The other main airport, which handles mostly domestic flights, is Zhuliany-Kyiv, located 7 kilometers from the center of Kyiv. The reconstruction of Boryspil Airport has made for a more traveler-friendly environment. However, plan for frustrating delays at passport and customs control points. The number of international airlines operating flights in and out of Kyiv is increasing. Austrian Airlines now has regular direct service between Vienna and Kyiv, Odessa, Dnipropetrovsk and Kharkiv. Of the U.S. carriers, United Airlines operates code-share flights with Austrian Air and Lufthansa; Delta Airlines with Air France; Northwest with KLM, and American Airlines with Swiss Air Lines. Other major international airlines with regular service in Ukraine are: British Airways, Finnair, Malev, LOT, CSA, Turkish Airlines, Aeroflot, and Transaero.

U.S. business travelers are encouraged to obtain a copy of the "Key Officers of Foreign Service Posts: Guide for Business Representatives" available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; Tel: (202) 512-1800; Fax: (202) 512-2250.

Business travelers to Ukraine seeking appointments with the U.S. Embassy Kyiv officials should contact the Commercial Section in advance. The Commercial Section can be reached by telephone at (380-44) 490-4018, fax at (380-44) 490-4046, or email at kiev.office.box@mail.doc.gov

For traffic safety and road conditions please visit the U.S. Department of State's Bureau of Consular affairs web site:
http://travel.state.gov/travel/cis_pa_tw/cis/cis_1053.html.

Transportation information including public transportation, taxis, transportation service contacts etc. is available on the web site of the Embassy of Ukraine in Washington D.C.: <http://www.ukraineinfo.us/culture/culture.html>

Language

[Return to top](#)

Ukrainian is the official state language of Ukraine since 1990. However, Russian is widely used in Kyiv and especially in the cities of eastern Ukraine. Russian is understood but used to a lesser extent in western Ukraine. Although those in the political world and the local media use both languages, official documents are in Ukrainian. The number of English speakers is growing yearly. Some useful Ukrainian vocabulary to remember is DOBRIY DEHN (hello, good day); DYA-KOO-YOU (thank you); BOOD LASKA (please/you're welcome).

For more information please visit the web site of the Embassy of Ukraine in Washington D.C.: <http://www.ukraineinfo.us/culture/culture.html>

Health

[Return to top](#)

Bring prescriptions with you and avoid drinking tap water (bottled water is readily available in major hotels and supermarkets). Long-term visitors may wish to consider bringing a distiller - not a filter - for a constant supply of potable water. Short-term

business travelers are unlikely to be affected by increasing reports of diphtheria and cholera; however, it is wise to make sure that all foods and utensils are thoroughly cleaned. Prior to travel, make sure proper immunizations are up-to-date. The U.S. Embassy Medical Unit can provide business travelers with further health information for Ukraine.

Medical information including medical evacuation and insurance, medical services in and outside of Kyiv is available on the U.S. Embassy's web site:
http://www.usemb.kiev.ua/amcit_medical_eng.html

Information on medical facilities and insurance is available on the U.S. Department of State's Bureau of Consular affairs web site:
http://travel.state.gov/travel/cis_pa_tw/cis/cis_1053.html

Local Time, Business Hours, and Holidays

[Return to top](#)

Ukrainian time is GMT+2 (Greenwich Mean Time) and EST+7 (Eastern Standard Time). The country observes daylight savings times from the last Sunday in March through the last Sunday in October.

To find out exact time in Ukraine, please visit
<http://www.timeanddate.com/worldclock/city.html?n=367>

Workweek: 40 hours per week
Normal business hours: 9 a.m. – 6 p.m.

Official 2005 Ukrainian holidays are as follows:

Holiday	Day	Date
New Year's Day	Saturday	January 1
Orthodox Christmas	Friday	January 7
International Women's Day	Tuesday	March 8
Orthodox Easter	Sunday, Mon.	May 1, 2
International Labor Day	Sunday, Mon.	May 1, 2
Victory Day	Monday	May 9
Holy Trinity	Sunday, Mon.	June 19, 20
Constitution Day	Tuesday	June 28
Independence Day	Wednesday	August 24

Please note that when a Ukrainian holiday falls on Saturday or on Sunday, it is usually observed on Monday; when on Saturday and on Sunday – it is usually observed on Monday and Tuesday. The Cabinet of Ministers of Ukraine may make additional changes in the holiday schedule during the year.

For updates please visit U.S. Embassy's web site:
http://web.usembassy.kiev.ua/holidays_eng.html

Temporary Entry of Materials and Personal Belongings

[Return to top](#)

According to Ukrainian law, foreign citizens bringing more than \$10,000 in cash or \$50,000 in checks into Ukraine must obtain a special license. All cash should be declared upon entry into the country. Amounts of less than \$10,000 in cash or \$50,000 in checks may be imported without this license.

Ukrainian Customs Procedures for Transporting Currencies, Monetary Instruments, or Precious Metals is available on the U.S. Embassy's web site:

http://www.usemb.kiev.ua/amcit_travel_ukrcustoms_eng.html

Information on customs regulations is available on the following web sites:

U.S. Department of State's Bureau of Consular affairs:

http://travel.state.gov/travel/cis_pa_tw/cis/cis_1053.html

Embassy of Ukraine in Washington D.C.:

<http://www.ukraineinfo.us/travel/customs.html>.

Web Resources

[Return to top](#)

Travel information is available on the web site of the Embassy of Ukraine in Washington D.C.: <http://www.ukraineinfo.us/travel/travel.html>

Ukraine's tourist information such as general overview, main attractions and places of special interest is available on the web site of the Embassy of Ukraine in Washington D.C.: <http://www.ukraineinfo.us/travel/places.html>

Maps of Ukraine are available on the web site of the Embassy of Ukraine in Washington D.C.: <http://www.ukraineinfo.us/about/map.html>

Information on banking and delivery services in Ukraine is available on the U.S. Embassy's web site: http://www.usemb.kiev.ua/amcit_misc_eng.html

Web-search engine for Ukraine: <http://meta-ukraine.com/en/>

[Return to table of contents](#)

[Return to table of contents](#)

Chapter 9: Contacts, Market Research, and Trade Events

- [Contacts](#)
- [Market Research](#)
- [Trade Events](#)

Contacts

[Return to top](#)

THE U.S. EMBASSY IN UKRAINE

<http://www.usemb.kiev.ua>

U.S. Commercial Service (USCS)
Robert M. Shipley, Counselor for Commercial Affairs
4, Hlybochytska St., 4th Floor, Kyiv 04050, Ukraine
Tel: (380-44) 490-4018; Fax: (380-44) 490-4046
E-mail: kiev.office.box@mail.doc.gov
<http://www.BuyUSA.gov/Ukraine>

AMERICAN CHAMBER OF COMMERCE IN UKRAINE

Jorge Zukoski, President
42-44 Shovkovychna Vul., LL2
Kyiv 01004, Ukraine
Tel: (380-44) 490-5800; Fax: (380-44) 490-5801
<http://www.amcham.kiev.ua>

GOVERNMENT OF UKRAINE

<http://www.kmu.gov.ua/control/en>
<http://www.president.gov.ua/eng/>

STATE STATISTICS COMMITTEE OF UKRAINE

<http://www.ukrstat.gov.ua>

NATIONAL BANK OF UKRAINE

<http://www.bank.gov.ua>

Market Research

[Return to top](#)

To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents.html>

<http://www.buyusa.gov/ukraine/en/events.html>

Please click on the link below for information on upcoming local trade shows/exhibitions.

<http://www.expoua.com/eng/exhibs/r2000000.html>

[Return to table of contents](#)

[Return to table of contents](#)

Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research.
- Promote your products and services to qualified buyers.
- Meet the best distributors and agents for your products and services.
- Overcome potential challenges or trade barriers.

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

(Insert link to Products and Services section of local buyusa.gov website here.)

[Return to table of contents](#)

U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.